




City of Westminster

City
for
All

Annual Report

City of Westminster Pension Fund • 2016/17

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1.

Preface

Report from Chair of the Pension Fund Committee

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

The Pension Fund Committee is responsible for overseeing the management of the City of Westminster Pension Fund including investment management and pension administration issues. As the Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2016/17.

During the year, the value of the Fund increased by over £200m to £1,267m reflecting the continued recovery in the global economy since last year. The Committee continues to monitor the Fund closely at every meeting and challenges the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

During 2016/17 the triennial revaluation of the Pension Fund was carried out by the Fund actuaries, Barnett Waddingham, using data as 31 March 2016. The actuaries reported that the Fund has assets to cover 80% of the liabilities and an overall deficit of £264m. This is an improvement in the funding level at the previous valuation in 2013 of 74%.

To improve funding levels the City Council will be accelerating contributions to the Fund which, in combination with other employers, will improve the overall funding level to 84% over the next three years and will reduce the deficit recovery period to 17 years.

During the year there have been on-going issues with data quality and transfer of information between parties that administer the Fund. Further details are in the Administration Management Performance section of the Annual Report. A plan of action is in place to address these issues during the summer, which the Pension Fund Committee will be actively monitoring to ensure service improvements are achieved.

The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. The £178m Baillie Gifford portfolio transferred to CIV in April 2016 resulting in savings of 10% or £70,000. The Fund has also benefitted from lower fees negotiated by the CIV on its Legal and General Passive Equities Portfolio. Preparatory work has been undertaken to transfer the Majedie and Longview portfolios to the CIV in the May and June 2017.

The Fund had its Annual General Meeting in September 2016, which was well attended with presentations from Surrey County Council (the Fund's administration provider) and Deloitte (the Fund's independent investment advisor) as well as Council officers. There were a range of questions from members, and I am pleased that this event continues to be popular.

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



Councillor Suhail Rahuja
Chairman of the Pension Fund Committee

Introduction

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2016, will be used to set contribution rates with effect from 1 April 2017.

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

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

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

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

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

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

Introduction (continued)

This annual report comprises the following sections:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** detailing the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- The funding position of the Fund with a statement from the Fund's actuary.
- **The Fund's annual accounts** for the year ended 31 March 2017
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
 - Governance Compliance Statement
 - Statement of Investment Principles
 - Communication Policy
 - Funding Strategy Statement
- Further information about the Local Government Pension Scheme can be found at www.westminster.gov.uk/council-pension-fund



2.

Management and Financial Information

Governance Arrangements

PENSION FUND COMMITTEE

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

Terms of Reference for the Pension Fund Committee are set out in Appendix 1 as part of the Governance Compliance Statement.

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

The current membership of the Pension Fund Committee is:

- Councillor Suhail Rahuja (Chairman)
- Councillor Peter Cuthbertson
- Councillor Patricia McAllister
- Councillor Ian Rowley

Councillors may be contacted at City Hall, 5 The Strand, London, WC2N 5HR

LOCAL PENSION BOARD

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

Terms of Reference for the Local Pension Board can be found on the Pension Fund website at

http://transact.westminster.gov.uk/docstores/publications_store/Pensions/terms_of_reference_final_Mar15.docx

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

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. A copy is available from Legal and Democratic Services at 4th Floor, City Hall, 5 The Strand, London WC2N 5HR or by telephone: 020 7641 3160.

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

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

GOVERNANCE COMPLIANCE STATEMENT

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

The key issues covered by the best practice principles are:

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

The Fund's Governance Compliance statement can be found at Appendix 1

Scheme Management and Advisors

EXTERNAL PARTIES

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

OFFICERS

| | | | |
|--|-----------------------------------|--|------------------------------|
| City Treasurer and Section 151 Officer | Steven Mair | | |
| Tri-Borough Pensions Team | George Bruce to October 2016 | | Alex Robertson |
| | Peter Carpenter from October 2016 | | Nicola Webb to November 2016 |
| | Nikki Parsons | | |
| Pensions and Payroll Officer | Sarah Hay | | |

Contact details are provided in Section 7 of this report.

Risk Management

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

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

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

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

| Objective area at risk | Risk | Risk rating | Responsible officer | Mitigating actions |
|------------------------|---|-------------|--|--|
| Administration | 3rd parties undertaking outsourced administration work are unable to facilitate timely and accurate updating of service records. Inaccuracies in service records may impact on actuarial valuations, calculations of pension benefits and on notifications to starters and leavers. | High | Director of People Services | Issue has been escalated by the Chief Executive for high level resolution with British Telecom Test files are currently with Surrey County Council Actuary undertakes data cleansing on service records as part of the triennial revaluation which should identify the extent of any inaccuracies |
| Administration | Loss of funds through fraud or misappropriation by 3rd parties could lead to negative impact on reputation of the Fund as well as financial loss. | High | City Treasurer and Director of People Services | Third parties regulated by the FCA. Separation of duties and independent reconciliation procedures in place. Review of third party internal control reports. Regular reconciliations of pension payments undertaken by Pensions Finance Team. Periodic internal audits of Pensions Finance and HR teams. |

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 16).

The Funding Strategy Statement (at Appendix 4) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

| Objective area at risk | Risk | Risk rating | Responsible officer | Mitigating actions |
|------------------------|--|-------------|--|--|
| Regulation | Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs | Medium | City Treasurer | Officers are engaging with Fund Managers to understand the position better Maintain links with central government and national bodies to keep abreast of national issues. |
| Funding | Scheme members live longer leading to higher than expected liabilities. | Medium | City Treasurer | Review at each triennial valuation and challenge actuary as required. |
| Funding | Assumed levels of inflation and interest rates may be inaccurate leading to higher than expected liabilities. | Medium | City Treasurer | Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. |
| Funding | Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others | Medium | City Treasurer and Director of People Services | Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds |
| Investment | Fund managers fail to achieve the returns agreed in their management agreements. | Medium | City Treasurer | Independent monitoring of fund manager performance against targets. Fund manager performance is reviewed quarterly. |

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

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

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

The results of these reviews are summarised below and cover 76% of investment holdings at 31 March 2017.

| Fund manager | Type of assurance | Control framework | Compliance with control | Reporting accountant |
|-----------------------|-------------------|----------------------|-------------------------|----------------------|
| Baillie Gifford | ISAE3402 | Reasonable assurance | Reasonable assurance | KPMG LLP |
| Hermes ² | ISAE3402 | Reasonable assurance | Reasonable assurance | Deloitte LLP |
| Insight ¹ | ISAE3402 | Reasonable assurance | Reasonable assurance | |
| LGIM ³ | ISAE3402 | Reasonable assurance | Reasonable assurance | PwC LLP |
| Longview ⁴ | ISAE3402 | Reasonable assurance | Reasonable assurance | Moore Stephens LLP |
| Majedie | ISAE3402 | Reasonable assurance | Reasonable assurance | KPMG LLP |
| Standard Life | ISAE3402 | Reasonable assurance | Reasonable assurance | PwC LLP |
| Custodian | | | | |
| Northern Trust | ISAE3402 | Reasonable assurance | Reasonable assurance | KPMG LLP |

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

¹ Insight - "To the best of our knowledge there were no material changes, removal or failure of any control or test objective, as stated and tested in the latest available report during the calendar year 2016"

² Hermes - "To the best of our knowledge, the AAF 01/06, ISAE 3402 and SSAE 16 report for the year to 31 December 2015 continues to provide a substantially accurate description of the internal controls environment within Hermes Fund Managers Limited for the period 1 January 2016 to date.

³ LGIM - "We can confirm that since the end of the period covered in the latest ISAE 3402 Assurance Reports on Internal Controls (31 December 2015), there have been no material changes to the operational controls in place, and the business has continued to operate in accordance with the risk management policy and control environment as described in the report."

⁴ Longview - "we herewith confirm that, for the period from 1 January 2016 through to today's date [9/2/2017], internal monitoring carried out by both Longview Partners LLP and ourselves has revealed no significant control deficiency issues nor have there been any material changes to our internal controls"

Financial Performance

The Fund asset value increased by £201m to £1,267m as at 31 March 2017 due to the recovery in global markets since the uncertainty of 2015/16.

The triennial revaluation was completed in 2016/17 showing an improvement in the overall funding level to 80% compared to 74% in 2013. However funding levels for different employers vary significantly. To improve funding levels, the Council's medium-term financial plan already assumes an increase in employer contributions, which in combination with other employers, will improve the overall funding level to 84% over the next three years.

The new valuation report will be used to determine contribution rates for the period 2017/18 to 2019/20.

ANALYTICAL REVIEW

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|------------------|------------------|---------------|------------------|
| Fund Account | £'000 | £'000 | £'000 | £'000 |
| Dealings with members | | | | |
| Contributions | (63,641) | (35,007) | (38,401) | (38,715) |
| Pensions | 48,478 | 51,289 | 51,473 | 51,632 |
| Net (additions)/withdrawals from dealings with members | (15,163) | 16,282 | 13,372 | 12,917 |
| Management expense | 5,333 | 7,047 | 7,791 | 5,052 |
| Net investment returns | (15,337) | (8,725) | (8,558) | (9,891) |
| Change in market value | (96,354) | (117,879) | 20,024 | (209,434) |
| Net (increase)/decrease in the Fund | (121,521) | (103,275) | 32,629 | (201,356) |

Over the four year period, pensions paid have exceeded contributions by £27m. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

Net investment returns in 2016/17 have improved significantly in comparison to the previous years, reflecting the recovery of global equity markets after a period of instability at the beginning of 2016.

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

Financial Performance (continued)

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|--|----------------|------------------|------------------|------------------|
| Net Asset Statement | £'000 | £'000 | £'000 | £'000 |
| Fixed Interest Securities | 128,343 | 145,426 | 157,123 | 173,673 |
| Equities | 208,296 | - | - | - |
| Pooled Investment Vehicles | 585,990 | 948,674 | 896,184 | 1,085,498 |
| Cash Deposits | 14,604 | 1,071 | 2,598 | 1,726 |
| Other | 27,187 | 1,745 | 2,030 | 996 |
| Total Investment Assets | 964,420 | 1,096,916 | 1,057,935 | 1,261,893 |
| Current assets | 32,514 | 3,104 | 9,677 | 7,010 |
| Current Liabilities | (1,237) | (1,048) | (1,269) | (1,204) |
| Total Net Assets available to fund benefits | 995,697 | 1,098,972 | 1,066,343 | 1,267,699 |

The points to note are:

- 90% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 10% is in property pooled funds (88% and 12% respectively in 2015/16)
- The overall value of pooled investment vehicles increased by £189m (21%) during the year
- Bonds are fixed interest securities which provide a steady hedge against volatility in the global equity markets. Bond values increased by £16m (10%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

Apart from 2014/15 when there was a large settlement contribution from an employer, expenditure has exceeded income.

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|-----------------|-----------------|-----------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Contributions receivable | | | | |
| - Members | (8,777) | (7,583) | (8,700) | (8,706) |
| - Employers | (24,717) | (52,381) | (27,244) | (27,200) |
| - Transfers in | (1,513) | (3,677) | (2,157) | (2,809) |
| Total Income | (35,007) | (63,641) | (38,101) | (38,715) |
| Benefits/Expenses | | | | |
| - Pensions | 39,895 | 38,244 | 41,141 | 41,315 |
| - Lump sum retirements and death benefits | 5,059 | 6,991 | 7,274 | 7,894 |
| - Transfers out | 6,292 | 3,162 | 2,962 | 2,385 |
| - Refunds | 43 | 81 | 96 | 38 |
| Total Expenditure | 51,289 | 48,478 | 51,473 | 51,632 |
| Net Dealings with Members | 16,282 | (15,163) | 13,372 | 12,917 |

The key variances were due to the following:

- Lump sums rose due to more members retiring than in previous years.
- Transfers out were lower because more members chose to keep their benefit entitlements in the LGPS on leaving rather than transfer to their new employer.
- Transfers in were higher, reflecting the number of new starters joining the scheme and members choosing to transfer in benefits on commencement of employment.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

| | 2014/15 | 2015/16 | 2016/17 |
|---------------------------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 |
| Administration | | | |
| Employees | 170 | 179 | 178 |
| Supplies and services | 373 | 228 | 385 |
| Other costs | (9) | 14 | 8 |
| | 534 | 441 | 571 |
| Governance and Oversight | | | |
| Employees | 140 | 157 | 178 |
| Investment advisory services | 86 | 74 | 73 |
| Governance and compliance | 44 | 13 | 42 |
| External audit | 21 | 21 | 21 |
| Actuarial fees | 27 | 17 | 16 |
| | 318 | 282 | 330 |
| Investment Management | | | |
| Management fees | 2,978 | 3,260 | 2,790 |
| Performance fees | 2,176 | 2,550 | 380 |
| Transaction costs | 1,160 | 1,182 | 911 |
| Custodian fees | 61 | 76 | 70 |
| | 6,195 | 7,068 | 4,151 |
| Total | 7,047 | 7,791 | 5,052 |

Costs as a percentage of total net assets were compared to all other local government pension funds in 2015/16. At 0.73% of net assets costs were slightly above the national average of 0.5%, but well within the lowest 60% of local government pension funds.

The key variances were due to the following:

- Increased supplies and services costs in 2016/17 reflects one-off IT costs and new software licences related to new online pension services for members and employers.
- The negative amount for “other costs” in 2014/15 reflects the reimbursement of fees incurred by the pension fund to other employers in the scheme and a historic refund of external audit fees
- The reduction in investment management costs in 2016/17 reflects participation in the London CIV which has led to economies of scale through sharing management fees and transaction costs
- There has also been a reduction in investment management costs through investment in pooled equity and pooled property vehicles where costs incurred by sub-funds are not recorded in the Fund’s financial statements although they do impact upon returns achieved. For 2016/17 and 2015/16 these indirect costs are estimated at £2m pa.

Administration Management Performance

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

PERFORMANCE INDICATORS

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

| Performance Indicators | Target | Performance | | |
|---|---------|-------------|---------|---------|
| | | 2014/15 | 2015/16 | 2016/17 |
| Letter detailing transfer in quote | 30 days | 100% | 100% | 100% |
| Letter detailing transfer out quote | 30 days | 96% | 100% | 86% |
| Process refund and issue payment voucher | 14 days | 100% | 100% | 100% |
| Letter notifying estimate of retirement benefit | 5 days | 93% | 62% | 83% |
| Letter notifying actual retirement benefit | 5 days | 98% | 91% | 96% |
| Letter acknowledging death of member | 5 days | 100% | 100% | 100% |
| Letter notifying amount of dependant's benefits | 5 days | 100% | 87% | 100% |
| Calculate and notify deferred benefits | 30 days | 90% | N/A | 85% |

Staff shortages, new legislative requirements and implementing new online pension systems have all had a negative impact on the performance indicators shown above. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

Looking forward, staffing issues have been addressed and new legislative requirements are now in place although they do involve more detailed and complex information to be provided to scheme members.

ORBIS

The ORBIS on-line pension system is now in operation with a secure portal which enables members to:

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

Scheme employers can use the new system to:

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

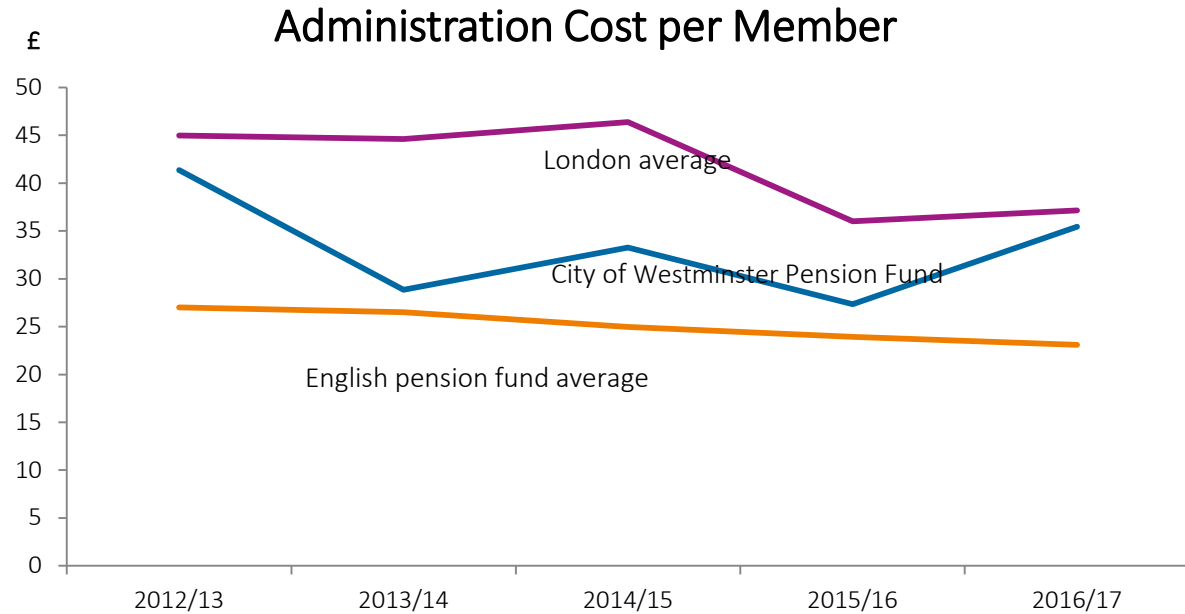
COMPLAINTS RECEIVED

The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see section 4)

Six cases have proceeded to the Pension Ombudsman since 2001 but to date only one complaint has been upheld. This was in 2014 /2015 in respect of a pensionable pay calculation.

No new complaints have been lodged with the Ombudsman in 2016/17.

Administration Management Performance (continued)



STAFFING INDICATORS

The administration of the Fund comprises:

- 3 full-time equivalent (fte) staff engaged by Surrey CC working directly on pension administration for Westminster
- 2.25 fte Westminster HR staff to deal with internal administration.
- 1.98 fte Westminster Finance staff, assigned to the oversight and governance of the Pension Fund.

The contract for administering the Fund was tendered in 2014 resulting in Surrey County Council being appointed. Costs rose slightly in 2014/15 as a result of the changeover of administrator, and again in 2016/17 reflecting the implementation of the ORBIS online portal for pension scheme members and employees.

Costs remain below the average for London borough pension funds as shown in the chart, and are subject to regular review.

Administration Management Performance (continued)

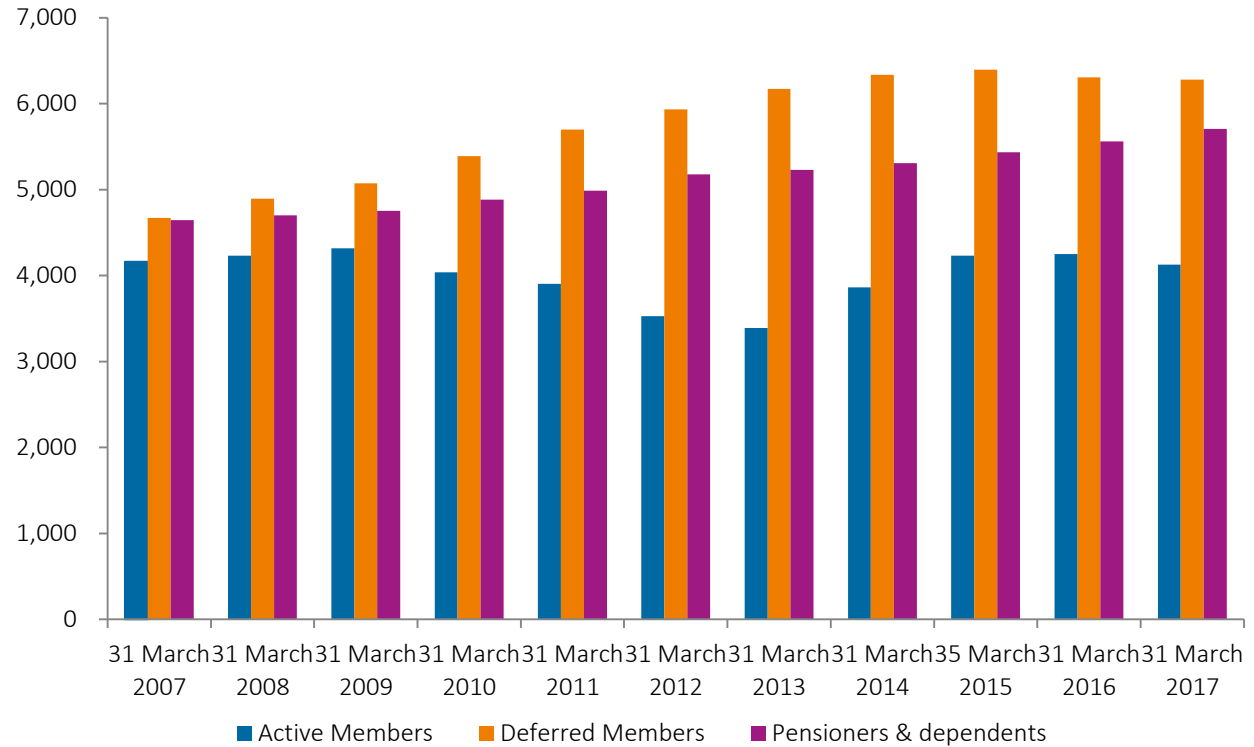
MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 20% over the past 11 years from 13,500 to 16,116.

However over this period the number of contributing members to the Pension Fund has declined steadily from 2007/08 to 2012/13 as shown in the chart below. The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has started to reverse this trend.

Nonetheless the number of pensioners and deferred members has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.

Fund Membership



Administration Management Performance (continued)

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

| Reason for Leaving | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|-----------------------|-----------|-----------|-----------|-----------|
| Ill Health Retirement | 4 | 3 | 6 | 5 |
| Early Retirement | 17 | 23 | 40 | 62 |
| Total | 21 | 27 | 46 | 67 |

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2016/17 (Figures include early retirement and deficit funding contributions).

| | Employees Contributions ² | Employers Contributions | Total Contributions |
|--|---|----------------------------|------------------------|
| | £'000 | £'000 | £'000 |
| Administering Authority Employers | | | |
| WESTMINSTER CITY COUNCIL | 5,606 | 18,704 | 24,310 |
| All Souls | 7 | 27 | 34 |
| Burdett Coutts | 17 | 67 | 84 |
| College Park | 31 | 117 | 148 |
| Edward Wilson | 15 | 56 | 71 |
| George Eliot | 29 | 106 | 135 |
| Hallfield | 44 | 164 | 208 |
| Paddington Green | 21 | 74 | 95 |
| Portman Early Childhood Centre | 29 | 98 | 127 |
| Queen Elizabeth II | 31 | 110 | 141 |
| Queen's Park | 19 | 70 | 89 |
| Robinsfield | 0 | 0 | 0 |
| Soho Parish | 6 | 25 | 31 |
| St Augustine's | 45 | 145 | 190 |
| St Barnabas | 3 | 11 | 14 |
| St Clement Danes | 20 | 74 | 94 |

² Includes early retirement and deficit contributions

| | Employees Contributions ² | Employers Contributions | Total Contributions |
|---|---|----------------------------|------------------------|
| St Gabriel's | 14 | 51 | 65 |
| St George Hanover Square | 8 | 29 | 37 |
| St James & St Michaels | 13 | 48 | 61 |
| St Lukes | 10 | 38 | 48 |
| St Mary Bryanston Square | 15 | 56 | 71 |
| St Mary Magdalene | 16 | 58 | 74 |
| St Matthew's | 14 | 48 | 62 |
| St Peters CE | 15 | 54 | 69 |
| St Peters Eaton Square | 4 | 15 | 19 |
| St. Saviours | 20 | 75 | 95 |
| Total Contributions from Administering Authority | 6,052 | 20,320 | 26,372 |

Administration Management Performance (continued)

SCHEDULED BODIES

The Fund provides pensions not only for employees of Westminster City Council, but also for the employees of a number of scheduled and admitted bodies.

Scheduled bodies are organisations which have a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

| | Employees Contribution ³ | Employers' Contributions | Total Contributions |
|--------------------------------|-------------------------------------|--------------------------|---------------------|
| Scheduled Bodies | | | |
| Ark Atwood Primary Academy | 22 | 32 | 54 |
| Beachcroft Academy | 12 | 39 | 51 |
| Churchill Gardens Academy | 24 | 77 | 101 |
| Gateway Academy | 20 | 44 | 64 |
| Grey Coat Hospital Academy | 70 | 233 | 303 |
| Harris Westminster Free School | 11 | 35 | 46 |
| King Solomon Academy | 42 | 54 | 96 |
| Marylebone Boys School | 12 | 29 | 41 |
| Millbank Primary Academy | 19 | 77 | 96 |
| Minerva Academy | 8 | 17 | 25 |
| Paddington Academy | 87 | 176 | 263 |
| Pimlico Academy | 93 | 126 | 219 |
| Pimlico Free School | 7 | 17 | 24 |

³ Includes early retirement and deficit contributions

| | Employees Contribution ⁴ | Employers' Contributions | Total Contributions |
|--|-------------------------------------|--------------------------|---------------------|
| Scheduled Bodies | | | |
| Quintin Kynaston Academy | 74 | 205 | 279 |
| St Georges Maida Vale Academy | 33 | 94 | 127 |
| St Marylebone Academy | 61 | 134 | 195 |
| St Marylebone Bridge School | 8 | 13 | 21 |
| Westminster Academy | 46 | 92 | 138 |
| Westminster City Academy | 45 | 130 | 175 |
| Wilberforce Academy | 24 | 75 | 99 |
| Total Contributions From Scheduled Bodies | 718 | 1,699 | 2,417 |

⁴ Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

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

| | Employees Contribution ⁵ | Employers Contributions | Total Contributions |
|---|--|----------------------------|------------------------|
| Admitted Bodies | | | |
| Allied Healthcare | 1 | 1 | 2 |
| Amey | 9 | 36 | 45 |
| City West Homes Ltd | 910 | 2,380 | 3,290 |
| Creative Education Trust | 61 | 79 | 140 |
| Hatsgroup | 6 | 31 | 37 |
| Housing 21 | 2 | 5 | 7 |
| Housing and Communities Agency | 750 | 1,996 | 2,746 |
| Independent Housing Ombudsman | 135 | 416 | 551 |
| JPL Catering | 2 | 9 | 11 |
| Sanctuary Housing | 54 | 272 | 326 |
| Total Contributions From Admitted Bodies | 1,930 | 5,225 | 7,155 |
| Grand Total | 8,700 | 27,244 | 35,944 |

⁵ Includes early retirement and deficit contributions

EMPLOYER ANALYSIS

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

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



3.

Investment Policy and Performance



Investment Policy

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

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

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

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

The current version of the Myners Principles covers the following areas:

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

The Fund's SIP can be found at Appendix 2.

For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

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

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

The ISS can be obtained from:

Pensions Fund Team, 5th Floor, City Hall,
5 The Strand, London WC2N 5HR

Email: pensionfund@westminster.gov.uk

Asset Allocation

The strategic asset allocation is agreed by the Pension Fund Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2017 was as follows:

| Asset Class | Target Allocation (original) | Target Allocation (revised) |
|---------------------------|------------------------------|-----------------------------|
| UK Equities | 20% | 22.5% |
| Global Equities (passive) | 40% | 47.5% |
| Global Equities (active) | | |
| Fixed Income | 20% | 20% |
| Property | 15% | 15% |
| TOTAL | 100.0 | 100% |

The Pension Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate that they operate under. In order to follow the Myner's Committee recommendation, Fund Managers are challenged deliberately and formally about asset allocation proposals.

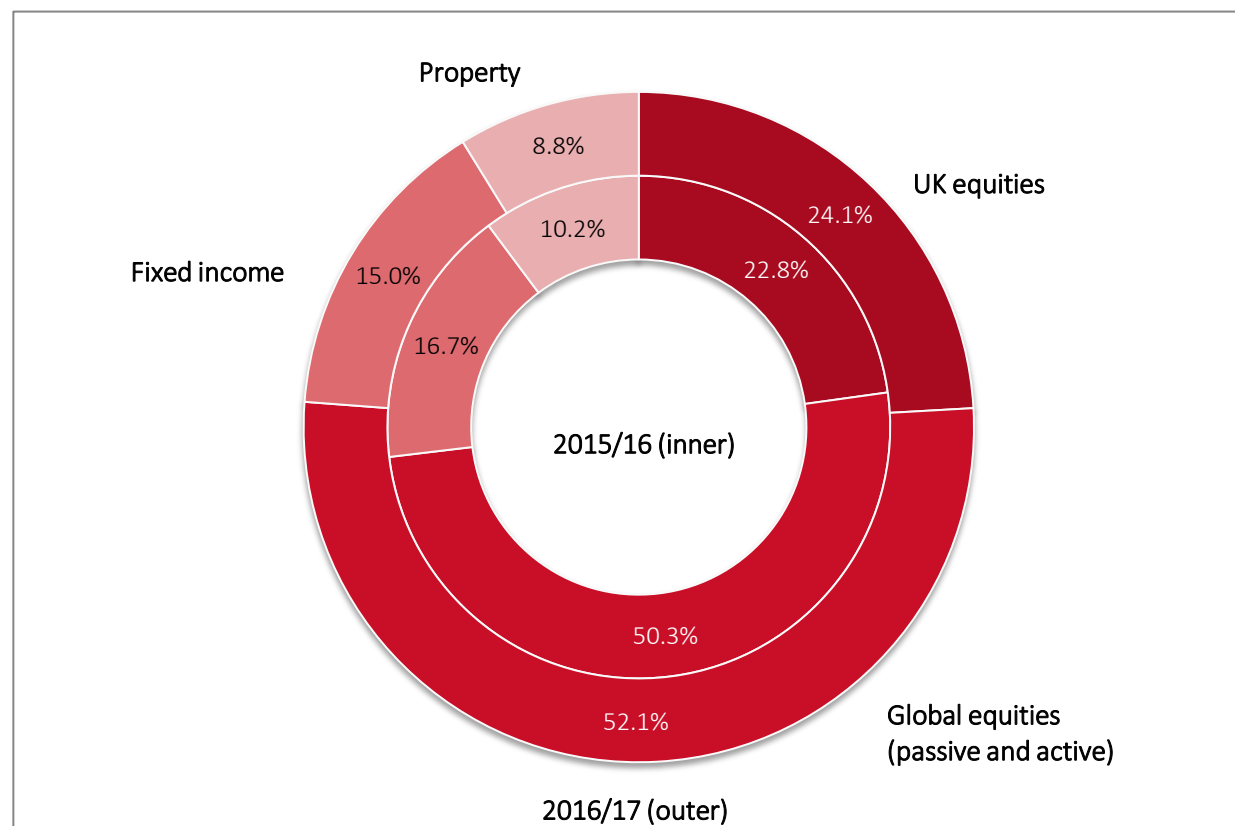
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangement and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an

effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the SIP.

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

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

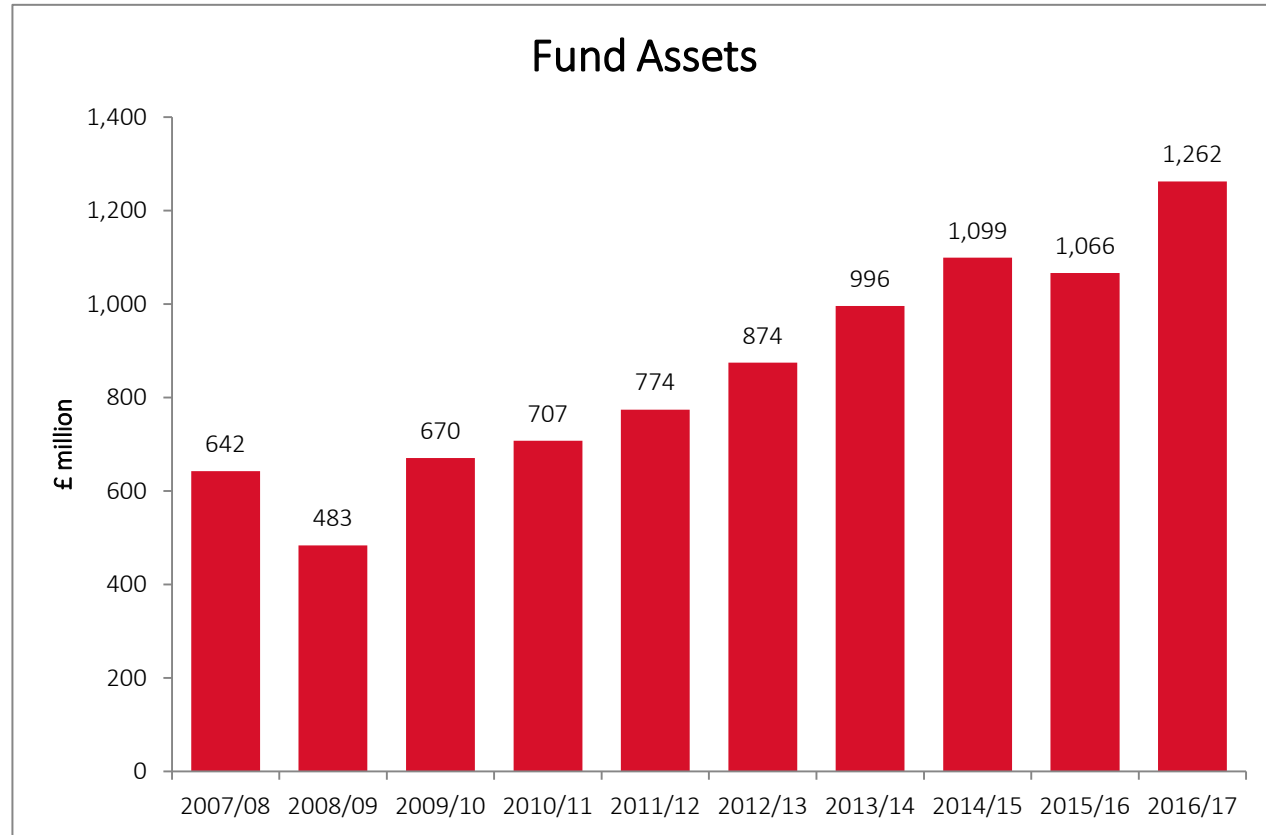


Asset Allocation (continued)

FUND VALUE

The value of the Fund has almost doubled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well in 2016/17 with an 18% increase in the value of investments during the year.

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



Investment Performance

The Fund's overall performance in 2016/17 exceeded the benchmark for the year as shown below.

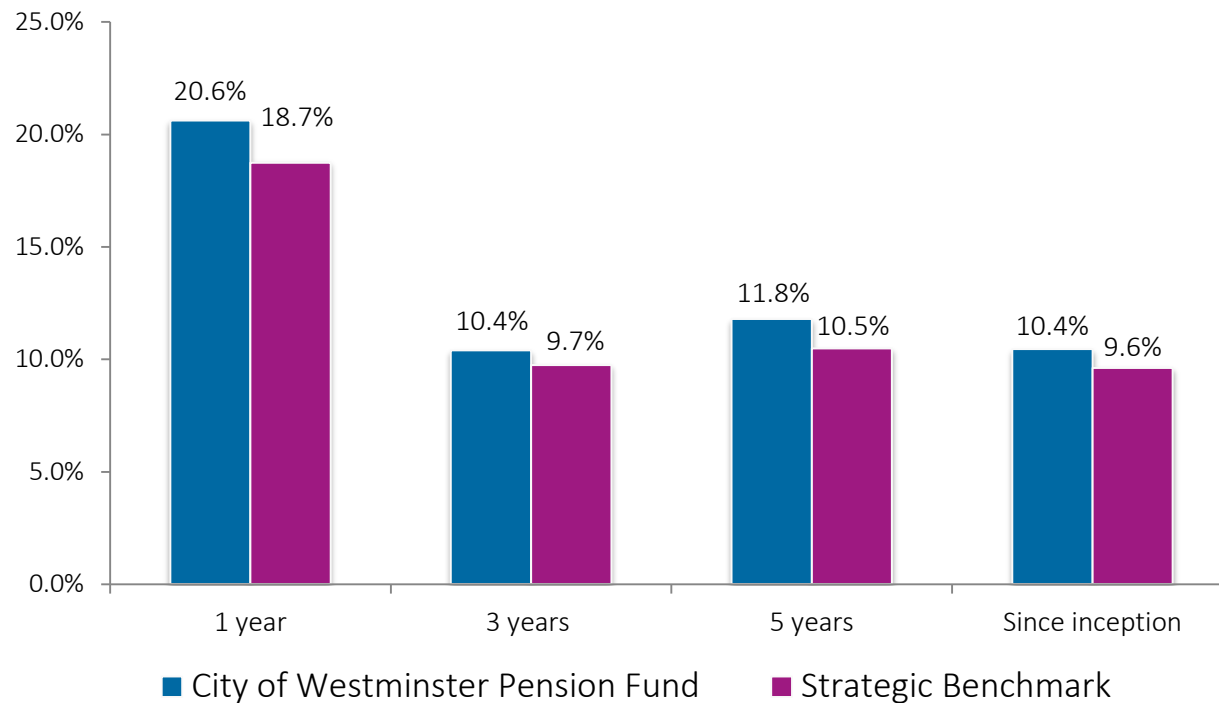
Annualised performance has also exceeded the benchmark since inception, and over the past 3 and 5 years.

At 20.6%, investment returns for 2016/17 are also comfortably above the LGPS average of 20.2%.

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

Performance of Fund Managers is reviewed quarterly by the Pension Fund Committee which is supported by the Fund's independent investment advisor, Deloitte.

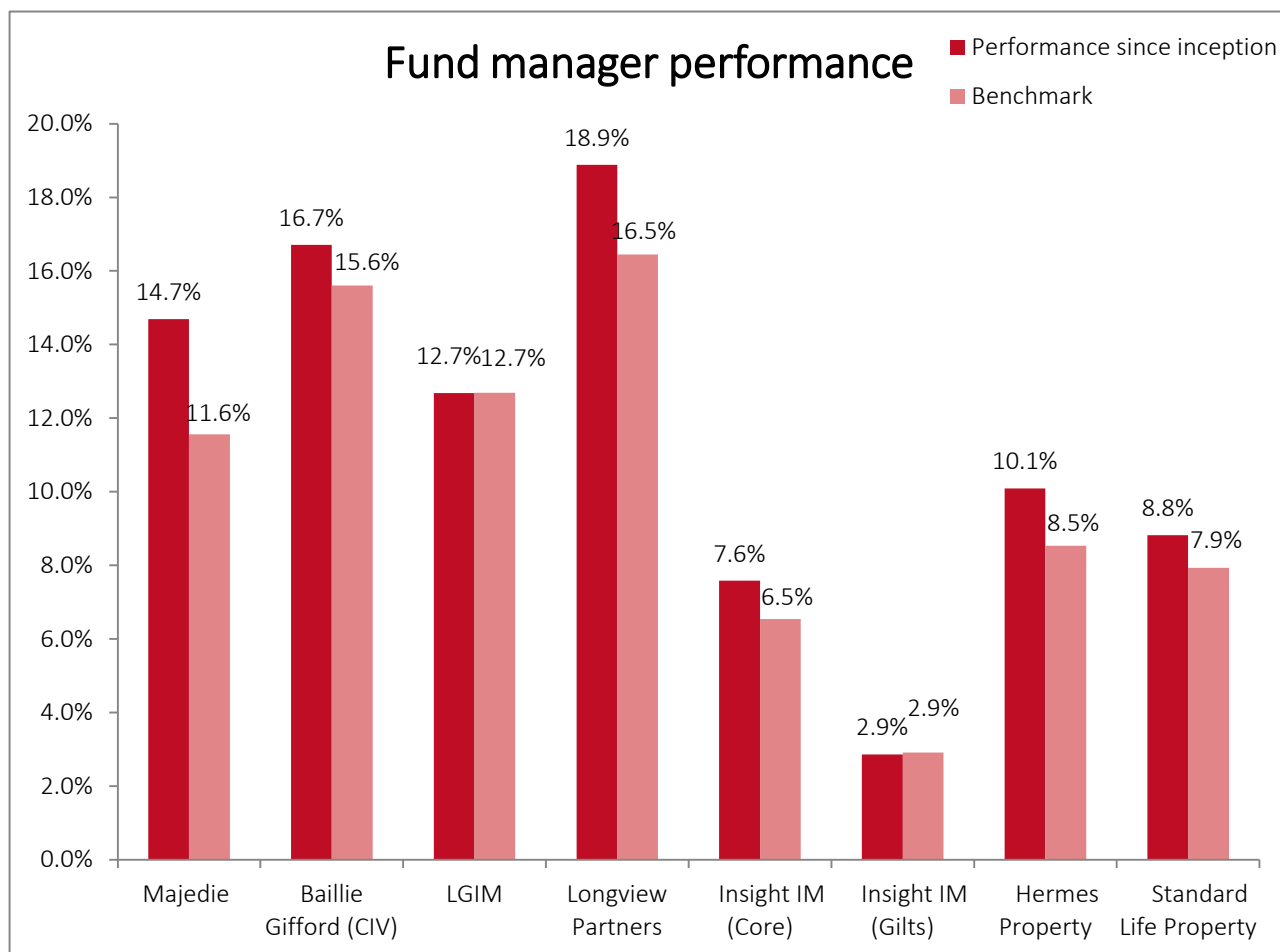
Annualised fund performance



Investment Performance (continued)

The overall performance of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance.

Overall each Fund Manager has achieved their target since inception.



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

- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Majedie, Baillie Gifford (CIV), Longview, and Hermes.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Fund managers with passive fund mandates are LGIM, Insight and Standard Life.

Corporate Governance

RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of a company and will improve investment returns to its shareholders.

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

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

PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and local authority members.

CIPFA staff and the network more generally are able to advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

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

VOTING

Fund Managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Committee. The Committee keeps under close review the various voting reports that it receives from Fund managers.

COLLABORATIVE VENTURES

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

Following FCA approval in 2016, the CIV has started to trade and the City of Westminster Pension Fund transferred the Baillie Gifford mandate (valued at £178m) into the CIV in April 2016.

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

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

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

The actuary is responsible for assessing the long term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 4) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.

Its purpose is:

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

STEWARDSHIP CODE

The Pensions Committee believes that investor stewardship is a key component of good governance, and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all of the Council's equity investment managers are signatories to the UK Stewardship Code.

The Pensions Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests, and deliver long-term returns.

The Pensions Committee encourages Fund Managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

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

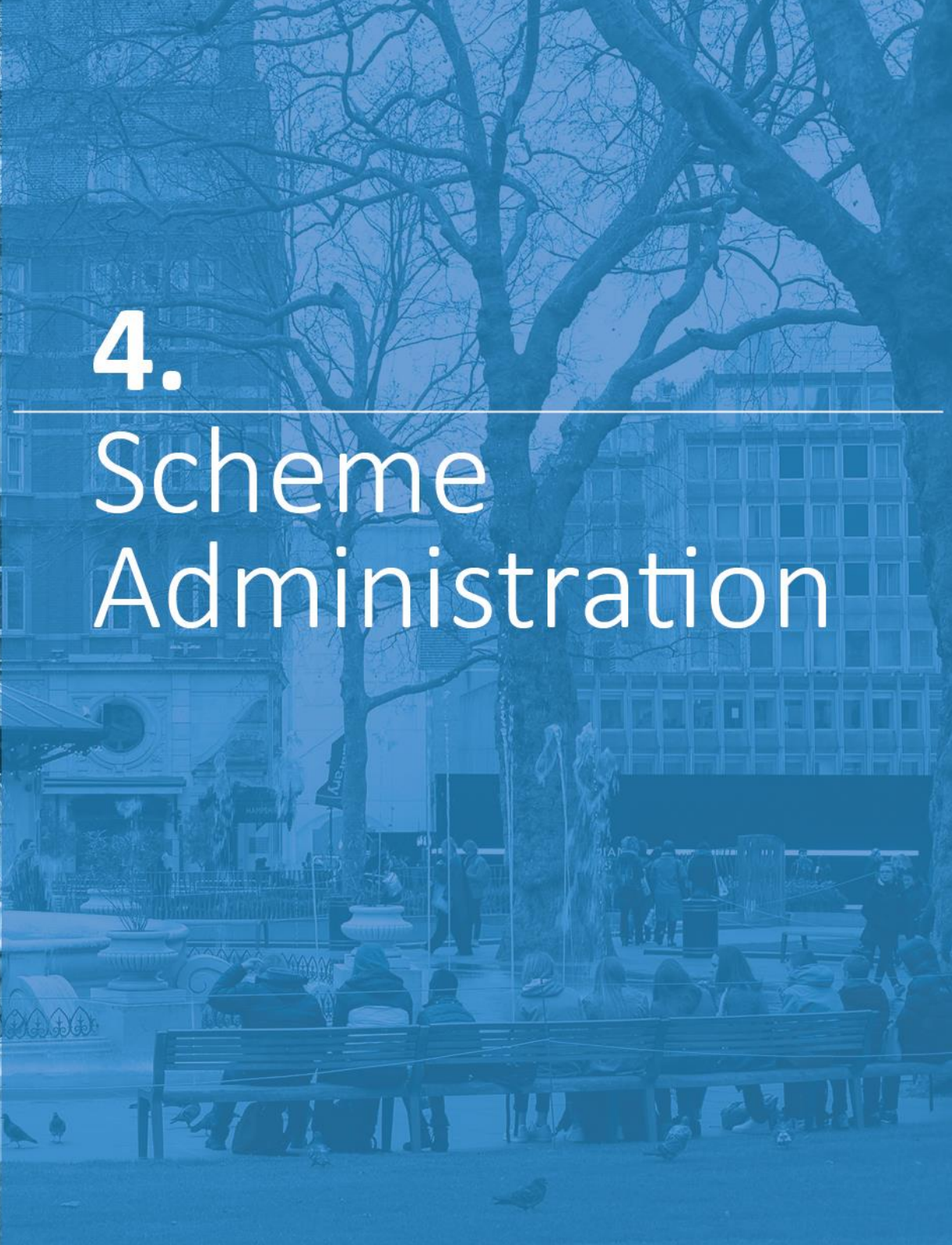
The Stewardship Policy provides further information on the different elements of the Council's commitment to stewardship. It is intended as a guide for investment managers, investee companies and pension fund members and can be accessed via the pension fund website on

http://transact.westminster.gov.uk/docstores/publications_store/Pensions/stewardship_policy_150908_final.docx



4.

Scheme Administration



Scheme Administration

SERVICE DELIVERY

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

The City Council administers the scheme for 41 employers (a complete list of employers is provided in section 2) These employers include not only the City Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been “admitted” to the pension fund under agreement with the City Council.

A not-for-profit contractual arrangement is in place with Surrey CC for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 20. The City Council’s Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

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

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

INTERNAL DISPUTE RESOLUTION PROCEDURE

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

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

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

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

- one complaint was received in 2016/17 but resolved before reaching IDRP Stage 1
- one complaint went to IDRP Stage 1 but was then resolved

No complaints received in 2016/17 have been referred to the Pensions Ombudsman.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB



5. Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the City of Westminster Pension Fund (“the Fund”) was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

This statement gives an update on the funding position as at 31 March 2017 and comments on the main factors that have led to a change since the full valuation.

2016 VALUATION

The results for the Fund at 31 March 2016 were as follows:

- The Fund as a whole had a funding level of 80% i.e. the assets were 80% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £264m which is lower than the deficit at the previous valuation in 2013.
- To cover the cost of new benefits a total contribution rate of 16.9% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2016 valuation, we estimate that the funding position at 31 March 2017 is similar to the position as at 31 March 2016.

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.



Graeme Muir FFA

Partner, Barnett Waddingham LLP



6.

Pension Fund Accounts

Statement of Responsibilities

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

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

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

THE CITY TREASURER'S RESPONSIBILITIES

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

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

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

The City Treasurer has also:

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



Steven Mair
City Treasurer, Section 151 Officer

Date: 6th April 2017

Independent Auditors Report

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

We have audited the pension fund financial statements of Westminster City Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

RESPECTIVE RESPONSIBILITIES OF THE CITY TREASURER AND THE AUDITOR

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

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

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

OPINION ON OTHER MATTERS

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

Elizabeth Jackson

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

18 July 2017

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

| 2015/16 | Notes | 2016/17 |
|--|-------|-----------------|
| £'000 | | £'000 |
| Dealings with members, employers and others directly involved in the fund | | |
| Contributions | | |
| (27,244) From Employers | 6 | (27,200) |
| (8,700) From Members | 6 | (8,706) |
| (2,157) Individual Transfers in from Other Pension Funds | | (2,809) |
| (38,101) | | (38,715) |
| Benefits | | |
| 41,141 Pensions | 7 | 41,315 |
| 7,274 Commutation, Lump Sum Retirement and Death Benefits | 7 | 7,894 |
| Payments to and on Account of Leavers | | |
| 2,962 Individual Transfers Out to Other Pension Funds | | 2,385 |
| 96 Refunds to Members Leaving Service | | 38 |
| 51,473 | | 51,632 |

Pension Fund Accounts and Explanatory Notes (continued)

| 2015/16 | | Notes | 2016/17 |
|-------------------------------|---|-------|----------------|
| £'000 | | | £'000 |
| 13,372 | Net (Additions)/Withdrawals from Dealings with Members | | 12,917 |
| 7,791 | Management Expenses | 8 | 5,052 |
| Returns on Investments | | | |
| (8,558) | Investment Income | 9 | (9,891) |
| - | - Other Income | | - |
| - | - Taxes on Income (Irrecoverable Withholding Tax) | 9 | - |
| (8,558) | | | (9,891) |
| 20,024 | (Profit) and loss on disposal of investments and changes in the market value of investments | 11 | (209,434) |
| 11,466 | Net return on investments | | (219,325) |
| 32,629 | Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year | | (201,356) |
| (1,098,972) | Opening Net Assets of the Scheme | | (1,066,343) |
| (1,066,343) | Closing Net Assets of the Scheme | | (1,267,699) |

Net Assets Statement for the year ended 31 March 2017*

| 2015/16 | | Notes | 2016/17 |
|-------------------------------|----------------------------|-------|------------------|
| £'000 | | | £'000 |
| Investment assets | | | |
| 157,123 | Bonds | 14 | 173,673 |
| 896,184 | Pooled Investment Vehicles | 14 | 1,085,498 |
| Derivative Contracts: | | | |
| 101 | Futures | 14 | 286 |
| 148 | Forward Foreign Exchange | 14 | 98 |
| Other Investment Balances: | | | |
| 2,440 | Income Due | 14 | 2,499 |
| 3 | Debtors | 14 | 0 |
| 2,598 | Cash Deposits | 14 | 1,726 |
| 1,058,597 | | | 1,263,780 |
| Investment Liabilities | | | |
| Derivative Contracts: | | | |
| (81) | Futures | 14 | (43) |
| (252) | Forward Foreign Exchange | 14 | (134) |
| (333) | | | (177) |

Net Assets Statement for the year ended 31 March 2017* (continued)

| 2015/16 | | Notes | 2016/17 |
|------------------|--|-------|------------------|
| £'000 | | | £'000 |
| (329) | Amounts payable for purchases of investments | 11 | (1,710) |
| 1,057,935 | Net Value of Investment Assets | | 1,261,893 |
| 9,677 | Current Assets | 18 | 7,010 |
| (1,269) | Current Liabilities | 19 | (1,204) |
| 1,066,343 | Net Assets of the Fund Available to Fund Benefits at the Period End | | 1,267,699 |

* The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 18.

Note 1 Description of the City of Westminster Pension Fund

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by the City of Westminster Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the City of Westminster and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

b) Funding

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2013. Currently employer contribution rates range from 8.1% to 27.5% of pensionable pay.

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

c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

| | Service pre 1 April 2008 | Service post 31 March 2008 |
|-----------------|---|--|
| Pension | Each year worked is worth 1/80 x final pensionable pay | Each year worked is worth 1/60 x final pensionable pay |
| Lump Sum | Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions, and death benefits.

The City of Westminster Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund has used Aegon as its appointed AVC provider for the past 14 years and Equitable Life before. AVCs are paid to the AVC providers by employers and specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

d) Governance

The Council has delegated management of the fund to the Pension Fund Committee (the 'Committee') who decide on the investment policy most suitable to meet the liabilities of the Fund and have the ultimate responsibility for the investment policy. The Committee is made up of four Members of the Council each of whom has voting rights.

The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee considers views from the Tri-Borough Director of Pensions and Treasury, and obtains, as necessary, advice from the Fund's appointed investment advisors, fund managers and actuary.

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

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

e) Investment Principles

In accordance with the LGPS (Management and Investment of Funds) Regulations 2009 the Committee approved a Statement of Investment Principles in 2015 (available on the Council's website at the link below). The Statement shows the Authority's compliance with the Myners principles of investment management.

www.westminster.gov.uk/council-pension-fund

The Committee has delegated the management of the Fund's investments to external investment managers (see Note 10) appointed in accordance with regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

The LGPS (Management and Investment of Funds) Regulations 2016 effective from 1 December 2016 required local authorities to prepare and publish by 31 March 2017 an Investment Strategy Statement (ISS) superseding the Statement of Investment Principles. The Committee approved the ISS on 21 March 2017 which is at Appendix 6 of this report.

f) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal pension arrangements outside the scheme.

Organisations participating in the City of Westminster Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

| 31 March 2016 | | 31 March 2017 |
|------------------|--|------------------|
| 30 | Number of employers with active members | 30 |
| 4,252 | Active members | 4,129 |
| 5,563 | Pensioners receiving benefits | 5,706 |
| 6,306 | Deferred Pensioners | 6,281 |
| 16,121 | | 16,116 |

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2016/17 and its position at year end as at 31st March 2017. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis (see Note 3(b) below).

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The authority has opted to disclose this information in Note 18. The Pension Fund Accounts have been prepared on a going concern basis.

Note 3 Summary of significant accounting policies

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

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

c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

FUND ACCOUNT – EXPENSE ITEMS

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is an exempt approved fund under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Note 3 Summary of significant accounting policies (continued)

f) Management Expenses

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

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

All investment management expenses are accounted for on an accruals basis. The Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

NET ASSETS STATEMENT

g) Financial Assets

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

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

h) Derivatives

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

Note 3 Summary of significant accounting policies (continued)

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Cash and Cash Equivalents

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

k) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 18).

m) Additional Voluntary Contributions

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (Note 21).

n) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 22.

Note 4 Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 3 above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

PENSION FUND LIABILITY

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 17. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

POOLED PROPERTY FUND PRICING

Assets invested in the Hermes Pooled Property Unit Trust have been reclassified from Level 2 to Level 3 in 2016/17 as a result of more detailed information becoming available during the year on the pricing methodology. Units in the fund are priced infrequently on a monthly basis, adjusted for the estimated costs of disposal of assets (which is an unobservable input). In addition the terms of the agreement mean that redemptions can only be undertaken on four set Notice Dates, redemption is not automatic and there is a time-lag of up to six weeks after the Notice date. The key sensitivities in the pricing of the units are the estimates of the cost of disposal and the degree of movement in the property market between Notice Dates and settlement dates.

Note 5 Assumptions made about the future and other major sources of uncertainty

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However the nature of estimation means that the actual results could differ from the assumptions and estimates.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|--|--|--|
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £182m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £8m, a 0.2% increase in pension increases would increase the liability by about £70m and a one year increase in life expectancy would increase the liability by about £62m. |

Note 6 Contributions receivable

Employees contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund. The table below shows a breakdown of the total amount of employers' and employees contributions.

BY AUTHORITY

| 2015/16 | | 2016/17 |
|---------------|-------------------------|---------------|
| £'000 | | £'000 |
| 26,372 | Administering Authority | 25,928 |
| 5,707 | Scheduled bodies | 5,856 |
| 3,865 | Admitted bodies | 4,122 |
| 35,944 | | 35,906 |

BY TYPE

| 2015/16 | | 2016/17 |
|---------------------------|---------------------------------|---------------|
| £'000 | | £'000 |
| 8,700 | Employees' normal contributions | 8,706 |
| Employer's contributions: | | |
| 16,811 | Normal contributions | 15,680 |
| 8,040 | Deficit recovery contributions | 9,957 |
| 2,393 | Augmentation contributions | 1,563 |
| 35,944 | | 35,906 |

Note 7 Benefits payable

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

BY TYPE

| 2015/16 | | 2016/17 |
|---------------|--|---------------|
| £'000 | | £'000 |
| 41,141 | Pensions | 41,315 |
| 6,888 | Commutation and lump sum retirement benefits | 7,292 |
| 386 | Lump sum death benefits | 602 |
| 48,415 | | 49,209 |

BY AUTHORITY

| 2015/16 | | 2016/17 |
|---------------|-------------------------|---------------|
| £'000 | | £'000 |
| 40,003 | Administering Authority | 39,469 |
| 1,582 | Scheduled Bodies | 1,885 |
| 6,830 | Admitted Bodies | 7,855 |
| 48,415 | | 49,209 |

Note 8 Management Expenses

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

| 2015/16 | 2016/17 |
|--------------------------------------|--------------|
| £'000 | £'000 |
| 441 Administration Expenses | 571 |
| 282 Oversight and Governance | 330 |
| 7,068 Investment Management Expenses | 4,151 |
| 7,791 | 5,052 |

External audit fee payable for 2016/17 is £21,000 (2015/16 £21,000).

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

| 2015/16 | 2016/17 |
|-------------------------|--------------|
| £'000 | £'000 |
| 3,260 Management fees | 2,790 |
| 2,550 Performance fees | 380 |
| 76 Custody fees | 70 |
| 1,182 Transaction costs | 911 |
| 7,068 | 4,151 |

Note 9 Investment Income

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

| 2015/16 | | 2016/17 |
|--------------|---|--------------|
| £'000 | | £'000 |
| 6,510 | Bonds | 6,522 |
| 2 | Equity dividends | 2 |
| 29 | Pooled investments - unit trust and other managed funds | 1,095 |
| 2,000 | Pooled property investments | 2,276 |
| 17 | Interest and cash deposits | (4) |
| 8,558 | Total before taxes | 9,891 |
| - | Taxes on income | - |
| 8,558 | Total | 9,891 |

Note 10 Investment Management Arrangements

As at 31 March 2017, the investment portfolio was managed by seven external managers:

- UK property portfolios are split between Hermes Investment Managers and Standard Life;
- Fixed income mandates are managed by Insight Investment Managers;
- Equity portfolios are split between Majedie Investment Managers (active UK), Baillie Gifford (active global, managed by the London CIV), Legal and General Investment Management (passive global) and Longview Partners (active global).

All managers have discretion to buy and sell investments within the constraints set by the Committee and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

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

Northern Trust acts as the Fund's global custodian. They are responsible for safe custody and settlement of all investment transactions and collection of income. The bank account for the Fund is held with Lloyds Bank.

The market value and proportion of investments managed by each fund manager at 31 March 2016 was as follows:

| 31 March 2016 Market Value | % | Fund Manager | Mandate | 31 March 2017 Market Value | % |
|-------------------------------|---------------|---|------------------------|-------------------------------|---------------|
| £'000 | | | | £'000 | |
| 242,521 | 22.8% | Majedie | UK Equity (Active) | 303,639 | 24.1% |
| 150 | - | London CIV | UK Equity (Passive) | 150 | - |
| 241,671 | 22.8% | UK Equity | Sub-Total | 303,789 | 24.1% |
| 178,427 | 17.0% | London LGPS CIV Ltd - Baillie Gifford | Global Equity (Active) | 233,835 | 18.5% |
| 239,635 | 22.7% | LGIM | World Equity (Passive) | 282,705 | 22.4% |
| 113,894 | 10.8% | Longview | Global Equity (Active) | 140,970 | 11.2% |
| 531,956 | 50.5% | Global Equity | Sub-Total | 657,510 | 52.1% |
| 18,356 | 1.7% | Insight | Fixed Interest Gilts | 18,867 | 1.5% |
| 158,105 | 14.9% | Insight | Sterling non-Gilts | 170,313 | 13.5% |
| 176,461 | 16.6% | Bonds | Sub-Total | 189,180 | 15.0% |
| 56,511 | 5.3% | Hermes | Property | 56,572 | 4.5% |
| 51,150 | 4.8% | Standard Life | Property | 54,773 | 4.3% |
| 107,661 | 10.1% | Property | Sub-Total | 111,345 | 8.8% |
| 1,057,749 | 100.0% | Total (excluding cash) | Sub-Total | 1,261,824 | 100.0% |
| 186 | | Other (cash deposits) | | 69 | |
| 1,057,935 | 100.0% | Total Investments at 31 March 2017 | Total | 1,261,893 | 100.0% |

Note 11 Reconciliation in movement in investments

| 2015/16 | Market value 1 April 2015 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2016 |
|--|---------------------------|---|---|--|----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Bonds | 145,426 | 56,492 | (41,585) | (3,210) | 157,123 |
| Equities | - | - | - | - | - |
| Pooled equity investments | 855,659 | 34,208 | (75,801) | (23,693) | 790,373 |
| Pooled property investments | 93,015 | 5,817 | (531) | 7,510 | 105,811 |
| Derivatives: | | | | | |
| Futures | 231 | 4 | (174) | (41) | 20 |
| Forward foreign exchange | (67) | 1,656 | (805) | (888) | (104) |
| Cash Instruments | - | - | - | - | - |
| Total | 1,094,264 | 98,177 | (118,896) | (20,322) | 1,053,223 |
| Cash deposits | 1,071 | - | - | 163 | 2,598 |
| Amounts receivable for sales of investments | 216 | - | - | 2 | - |
| Investment income due | 2,473 | - | - | 1 | 2,440 |
| Spot FX contracts | (1) | - | - | 132 | 3 |
| Amounts payable for purchases of investments | (1,107) | - | - | - | (329) |
| Net investment assets | 1,096,916 | - | - | (20,024) | 1,057,935 |

Note 11 Reconciliation in Movement in Investments (continued)

| 2016/17 | Market value 1 April 2016 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2017 |
|--|---------------------------|---|---|--|----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Bonds | 157,123 | 65,146 | (55,646) | 7,050 | 173,673 |
| Equities | - | - | - | - | - |
| Pooled equity investments | 790,373 | 231,435 | (244,840) | 197,831 | 974,759 |
| Pooled property investments | 105,811 | - | (260) | 5,188 | 110,739 |
| Derivatives: | | | | | |
| Futures | 20 | 2,044 | (2,971) | 1,150 | 243 |
| Forward foreign exchange | (104) | 3,200 | (1,440) | (1,692) | (36) |
| Cash Instruments | - | - | - | - | - |
| Total | 1,053,223 | 301,825 | (305,197) | 209,527 | 1,259,378 |
| Cash deposits | 2,598 | - | - | (99) | 1,726 |
| Amounts receivable for sales of investments | - | - | - | - | - |
| Investment income due | 2,440 | - | - | - | 2,498 |
| Spot FX contracts | 3 | - | - | 6 | 0 |
| Amounts payable for purchases of investments | (329) | - | - | - | (1,710) |
| Net investment assets | 1,057,935 | - | - | 209,434 | 1,261,892 |

Note 12 Investments exceeding 5% of net assets

The table below shows the Fund's investments which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

| 31 March 2016 Market Value | | Holding | 31 March 2017 Market Value | |
|-------------------------------|-----------|--|-------------------------------|-----------|
| £'000 | % Holding | | £'000 | % Holding |
| 241,518 | 22.8% | Majedie - Institutional Trust Class B Shares | 303,636 | 24.1% |
| 239,628 | 22.7% | L&G - World Equity Index - GBP Hedged/GB Hedged OFC | 282,706 | 22.4% |
| - | - | London LGPS CIV Ltd – Baillie Gifford Life Global Alpha Sub Fund | 233,313 | 18.5% |
| 178,427 | 16.9% | Baillie Gifford - Life Global Alpha Pension Fund | - | - |
| 113,894 | 10.8% | Longview - Conventum Asset Management | 140,969 | 11.2% |
| 54,660 | 5.2% | Hermes Property UT | 55,967 | 4.4% |
| 828,127 | 78.3% | Total Top Holdings | 1,016,590 | 80.6% |
| 1,057,935 | | Total Value of Investments | 1,261,893 | |

Note 13 Analysis of Derivatives

OBJECTIVES AND POLICIES FOR HOLDING DERIVATIVES

The Committee has authorised the use of derivatives for efficient portfolio management purposes and to reduce certain investment risks, in particular foreign exchange risk. All uses of derivatives are outsourced to the Fund's external asset managers which must adhere to the detailed requirements set out in their investment management agreements.

a) Liquidity

The Fund uses interest rate futures to hedge some of the non-Sterling interest rate risk.

b) Forward foreign currency

The Fund uses forward foreign exchange contracts to reduce the foreign currency exposure from overseas bond holdings that are within the portfolio (foreign currency exposure is fully hedged into Sterling).

FUTURES

Outstanding exchange traded futures contracts are as follows.

| Economic Exposure | Market Value 31 March 2016 | Type | Expires | Economic Exposure | Market Value 31 March 2017 |
|--------------------|----------------------------|--------------------------|------------------|-------------------|----------------------------|
| £'000 | £'000 | | | £'000 | £'000 |
| Assets | | | | | |
| 17,577 | 92 | UK Fixed Income | less than 1 year | 18,882 | 282 |
| (5,870) | 9 | Overseas fixed income | less than 1 year | (1,353) | 4 |
| | 101 | Total Assets | | | 286 |
| Liabilities | | | | | |
| (15,976) | (81) | Overseas Fixed Income | less than 1 year | (11,199) | (43) |
| | (81) | Total Liabilities | | | (43) |
| <hr/> | | | | | |
| | 20 | Net futures | | | (243) |

Note 13 Analysis of Derivatives (continued)

FORWARD CURRENCY CONTRACTS

Outstanding exchange traded forward currency contracts are as follows:

| Settlement | Currency Bought | Local Value | Currency Sold | Local Value | Asset Value | Liability Value |
|---|-----------------|-------------|---------------|-------------|-------------|-----------------|
| | | £'000 | | £'000 | £'000 | £'000 |
| One to six months | GBP | 8,351 | EUR | (9,764) | 29 | (37) |
| Up to one month | GBP | 7,519 | USD | (9,367) | 53 | (21) |
| One to six months | EUR | 2,151 | GBP | (1,865) | 2 | (26) |
| Up to one month | USD | 3,328 | GBP | (2,711) | - | (50) |
| One to six months | GBP | 2,371 | USD | (2,951) | 14 | - |
| Open forward currency contracts at 31 March 2017 | | | | | 98 | (134) |
| Net forward currency contracts at 31 March 2017 | | | | | | (36) |
| Prior year comparative: | | | | | | |
| Open forward currency contracts at 31 March 2016 | | | | | 148 | (252) |
| Net forward currency contracts at 31 March 2016 | | | | | | (104) |

Note 14 Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---------------------|--|---|---|
| Pooled Investments - Equity Funds UK and Overseas Managed Funds | Level 1 | Published bid market price ruling on the final day of the accounting period. | Not required | Not required |
| Quoted UK and Overseas Bonds | Level 2 | Fixed income securities are priced based on evaluated prices provided by independent pricing services. | Evaluated price feeds | Not required |
| Futures | Level 2 | Published exchange prices at the year-end. | Evaluated price feeds | Not required |
| Forward Foreign Exchange Derivatives | Level 2 | Market forward exchange rates at the year-end. | Exchange rate risk | Not required |
| Pooled Long Lease Property Fund | Level 2 | The Standard Life Long Lease Property Fund is priced on a Single Swinging Price. | In house evaluation of market data | Not required |
| Pooled Investments – Property Funds | Level 3 | Closing bid price where bid and offer prices are published. | Adjusted for net capital current assets | Estimated acquisition and disposal costs |

SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

| Description of asset | Assessed Valuation Range (+/-) | Value at 31 March 2017 | Value on increase | Value on decrease |
|-------------------------------------|--------------------------------|------------------------|-------------------|-------------------|
| | | £000 | £000 | £000 |
| Pooled investments - Property funds | 3% | 56,572 | 58,269 | 54,875 |
| Total | | 56,572 | 58,269 | 54,875 |

Note 14a Valuation of Financial Instruments carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 – where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices. The bid value is based on the market quotation of the relevant stock exchange.

Level 2 – where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

| 31 March 2016 | | | 31 March 2017 | | |
|------------------------------|---------------------------------|--|-----------------------------|---------------------------------|--|
| Quoted Market Price Level 1 | Using Observable Inputs Level 2 | With Significant Unobservable Inputs Level 3 | Quoted Market Price Level 1 | Using Observable Inputs Level 2 | With Significant Unobservable Inputs Level 3 |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | | |
| 949,789 | 106,210 | - | 961,379 | 243,953 | 56,722 |
| 12,275 | - | - | 8,704 | - | - |
| 962,064 | 106,210 | - | 970,083 | 243,953 | 56,722 |
| Financial Liabilities | | | | | |
| - | (333) | - | - | (177) | - |
| (1,061) | - | - | (2,323) | - | - |
| (1,061) | (333) | - | (2,323) | (177) | - |
| 961,003 | 105,877 | - | 967,760 | 243,776 | 56,722 |
| 1,066,880 | | | 1,268,258 | | |
| Grand Total | | | Grand Total | | |

Note 14b Transfers between Levels 1 and 2

£189.180m of Bonds and Sterling non-Gilts were transferred from level 1 to level 2 during the year as a result of additional pricing information becoming available. The updated PRAG guidance for 2016 advises that bonds valued using an average of broker prices or evaluated mid-prices will fall into Level 2. The valuation by the fund manager, Insight, sets out the pricing for bonds and non-gilts on this basis.

Note 14c Reconciliation of Fair Value Measurements within Level 3

| Asset | Opening balance | Transfers into Level 3 | Transfers out of Level 3 | Purchases | Sales | Unrealised gains/losses | Realised gains/losses | Closing balance |
|--|-----------------|------------------------|--------------------------|--------------|----------------|-------------------------|-----------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Pooled investments - property funds (see note below) | | 56,511 | - | 2,194 | (3,440) | 1,307 | - | 56,572 |
| Total | | 56,511 | - | 2,194 | (3,440) | 1,307 | - | 56,572 |

Transferred from level 2 to level 3 due to reappraisal of property valuation techniques

Note 15a Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments and also shows the split by UK and overseas.

| 31 March 2016 | | | 31 March 2017 | | |
|---|-----------------------|---|--|-----------------------|---|
| Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Financial Assets | | | | | |
| Bonds - quoted | | | | | |
| 25,954 | - | - | UK Public sector | 26,553 | - |
| 64,917 | - | - | UK Corporate | 82,913 | - |
| 779 | - | - | Overseas Public sector | 782 | - |
| 65,473 | - | - | Overseas Corporate | 61,463 | - |
| - | - | - | Overseas Index Linked | 1,962 | - |
| Pooled funds - investment vehicles | | | | | |
| 659,722 | - | - | UK Managed Funds Other | 819,804 | - |
| 105,811 | - | - | UK Unit Trusts Property | 110,739 | - |
| 130,651 | - | - | Overseas Managed | 154,995 | - |
| Derivative Contracts | | | | | |
| 101 | - | - | Futures | 286 | - |
| 148 | - | - | Forward Foreign Exchange | 98 | - |
| - | 8,658 | - | Cash Balances (held directly by Fund) | - | 5,544 |
| 2,440 | - | - | Other Investment Balances | 2,499 | - |
| - | 2,598 | - | Cash Deposits | - | 1,726 |
| 3 | 1,019 | - | Debtors | - | 1,434 |
| 1,055,999 | 12,275 | - | | 1,262,054 | 8,704 |

Note 15a Classification of Financial Instruments (continued)

| 31 March 2016 | | | | 31 March 2017 | | |
|------------------------------------|-----------------------|---|---------------------------|------------------------------------|-----------------------|---|
| Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | | Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| Financial Liabilities | | | | | | |
| Derivative Contracts | | | | | | |
| (81) | - | - | Futures | (43) | - | - |
| (252) | - | - | Forward Foreign Exchange | (134) | - | - |
| - | - | - | Other Investment Balances | - | - | - |
| - | - | (1,061) | Creditors | - | - | (2,323) |
| (333) | - | (1,061) | | (177) | - | (2,323) |
| 1,055,666 | 12,275 | (1,061) | Total | 1,261,877 | 8,704 | (2,323) |
| 1,066,880 | | | Grand Total | 1,268,258 | | |

Note 15b Net Gains and Losses on Financial Instruments

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

| 31 March 2016 | | 31 March 2017 |
|------------------------------|--|----------------|
| £'000 | | £'000 |
| Financial Assets | | |
| (20,322) | Designated at fair value through profit and loss | 209,527 |
| 163 | Loans and receivables | (99) |
| (20,159) | | 209,428 |
| Financial Liabilities | | |
| 135 | Designated at fair value through profit and loss | 6 |
| - | Financial liabilities at amortised cost | - |
| 135 | | 6 |
| (20,024) | Total | 209,434 |

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

Note 16 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

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

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

a) Market Risk

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

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

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

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

| Price Risk Assets exposed to price risk | Value | Value on 10% price increase | Value on 10% price decrease |
|---|------------------|--------------------------------|--------------------------------|
| | £'000 | £'000 | £'000 |
| As at 31 March 2016 | 1,053,408 | 1,158,749 | 948,067 |
| As at 31 March 2017 | 1,259,457 | 1,385,403 | 1,133,511 |

Note 16 Nature and extent of risks arising from Financial Instruments (continued)

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Committee and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year. The Fund manages its interest risk exposure through the use of futures derivatives (see Note 13).

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

| Assets exposed to interest rate risk | Value | Value on 1% price increase | Value on 1% price decrease |
|--------------------------------------|----------------|----------------------------|----------------------------|
| | £'000 | £'000 | £'000 |
| As at 31 March 2016 | 168,379 | 170,063 | 166,695 |
| As at 31 March 2017 | 180,943 | 182,752 | 179,134 |

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 13). The Committee recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Note 16 Nature and extent of risks arising from Financial Instruments (continued)

| Assets exposed to currency risk | Value | Value on 10% foreign exchange rate increase | Value on 10% foreign exchange rate decrease |
|------------------------------------|----------------|---|---|
| | £'000 | £'000 | £'000 |
| As at 31 March 2016 | 666,743 | 733,417 | 600,069 |
| As at 31 March 2017 | 811,085 | 892,194 | 729,977 |

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Committee monitors cash flows and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2017, liquid assets were £1,158m representing 91% of total fund assets (£961m at 31 March 2016 representing 90% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

The Fund also has an overdraft facility of £1m for short-term cash needs (up to 90 days). This facility is only for meeting timing differences on pension payments or managing changes in fund managers. The facility was not used in the year.

Note 17 Funding Arrangements

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the Fund is able to meet its liabilities to past and present contributors and to review the employer contribution rates.

The latest full triennial valuation of the Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 28 March 2014. The report and Funding Strategy Statement are both available on the Council's website at

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

The actuary's smoothed market value of the scheme's assets at 31 March 2013 was £866.9m and the Actuary assessed the present value of the funded obligation at £1,164m. This indicates a net liability of £297.3m, which equates to a funding position of 74% (2010: £238.1m and 74%).

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

| Future assumed returns at 2013 | Assumed returns % | Risk adjusted assumed returns % |
|--------------------------------|-------------------|---------------------------------|
| Gilts | 3.3 | 6 |
| Cash | 3.1 | 4 |
| Bonds | 3.9 | 13 |
| Equities | 6.9 | 74 |
| Property | 6.0 | 4 |

| Financial assumptions | 2013 % | 2010 % |
|----------------------------------|--------|--------|
| Discount rate - scheduled bodies | 5.9 | 7.5 |
| Discount rate - admitted bodies | 4.9 | 6.3 |
| RPI | 3.5 | 3.8 |
| CPI | 2.7 | 3.3 |
| Pension increases | 2.7 | 3.3 |
| Short-term pay increases | 1.0 | n/a |
| Long-term pay increases | 4.5 | 5.3 |

The 2013 valuation certified an aggregate employer contribution rate of 29.8% of pensionable pay (2010: 20.4%). The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 25 years, as set out in the Funding Strategy Statement (2010: 30 years). The common future service contribution rate for the Fund was set at 13.3% of pensionable pay (2010: 12.4%).

The triennial valuation also sets out the individual contribution rate to be paid by each employer from 1 April 2014 depending on the demographic and actuarial factors particular to each employer. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The next actuarial revaluation of the Fund is being calculated as at 31 March 2016 and the results will be published by 31st March 2017. This revaluation will impact on the pension fund's 2017/8 financial statement.

Note 18 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2017. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

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

| 31 March 2016 | | 31 March 2017 | |
|------------------|---|------------------|--|
| £'000 | | £'000 | |
| (1,562,637) | Present Value of Promised Retirement Benefits | (2,052,314) | |
| 1,061,424 | Fair Value of Scheme Assets (bid value) | 1,274,628 | |
| (501,213) | Net Liability | (777,686) | |

Present Value of Promised Retirement Benefits comprise £1,998.1m (2015/16: £1,520.8m) and £54.174m (2015/16: £41.817m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2017.

ASSUMPTIONS

To assess the value of the Fund's liabilities at 31 March 2017, the value of Fund's liabilities calculated for the funding valuation as at 31 March 2013 have been rolled forward, using financial assumptions that comply with IAS19.

DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016, hence they are different from those used for the 2015/16 statement of accounts. The post retirement mortality tables adopted are the S1PA 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.

Assumed life expectancy from age 65 is:

| Life expectancy from age 65 years | | 31 March 2016 | 31 March 2017 |
|-----------------------------------|---------|---------------|---------------|
| Retiring today | Males | 22.1 | 24.4 |
| | Females | 25.3 | 26.0 |
| Retiring in 20 years | Males | 24.4 | 26.6 |
| | Females | 27.7 | 28.3 |

FINANCIAL ASSUMPTIONS

The main financial assumptions are:

| | 31 March 2016 | 31 March 2017 |
|-------------------|---------------|---------------|
| | % | % |
| RPI increases | 3.2 | 3.6 |
| CPI increases | 2.3 | 2.7 |
| Salary increases | 4.1 | 4.2 |
| Pension increases | 2.3 | 2.7 |
| Discount rate | 3.5 | 2.7 |

Note 19 Current Assets

| 31 March 2016 | | 31 March 2017 |
|-----------------|-------------------------------|---------------|
| £'000 | | £'000 |
| Debtors: | | |
| 635 | Contributions due - employers | 719 |
| 200 | Contributions due - employees | 179 |
| 184 | Sundry debtors | 568 |
| 8,658 | Cash balances | 5,544 |
| 9,677 | Total | 7,010 |

ANALYSIS OF DEBTORS

| 31 March 2016 | | 31 March 2017 |
|---------------|--------------------------------|---------------|
| £'000 | | £'000 |
| - | Central Government Bodies | 32 |
| 1,019 | Other entities and individuals | 1,434 |
| 1,019 | Total | 1,466 |

Note 20 Current Liabilities

| 31 March 2016 | | 31 March 2017 |
|----------------|--------------------------------|----------------|
| £'000 | | £'000 |
| (567) | Central Government Bodies | (591) |
| (732) | Other Entities and individuals | (613) |
| (1,269) | Total | (1,204) |

Note 21 Additional Voluntary Contributions

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

| 31 March 2016 Market Value | | 31 March 2017 Market Value | |
|-------------------------------|----------------|-------------------------------|--|
| £'000 | | £'000 | |
| 1,356 | Aegon | 1,318 | |
| 474 | Equitable Life | 409 | |
| 1,830 | Total | 1,727 | |

Additional voluntary contributions of £0.1m were paid directly to Aegon during the year (2015/16: £0.2m).

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

Note 22 Related Party Transactions

The Fund is administered by Westminster City Council. The Council incurred costs of £0.37m in the period 2016/17 (2015/16: £0.34m) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Fund uses the same Banking and Control Service provider as WCC and no charge is made in respect of this.

KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Fund are the Members of the Pension Fund Committee, the City Treasurer, the Tri-Borough Director of Pensions and Treasury Management and the Director of People Services. Total remuneration payable to key management personnel is set out below:

| 31 March 2016 | | 31 March 2017 | |
|---------------|--------------------------|---------------|--------------|
| £'000 | | £'000 | |
| 43 | Short-term benefits | 55 | |
| 131 | Post-employment benefits | 91 | |
| - | Termination benefits | 7 | |
| 174 | | 153 | Total |



7.

Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

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

ACCRUALS

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

ACTIVE MANAGEMENT

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

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

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

ACTUARY

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

ADMITTED BODY

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

ASSET ALLOCATION

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

BENCHMARK

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

BONDS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

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

CREDITORS

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

DEBTORS

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

DEFERRED MEMBERS

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

DEFINED BENEFIT SCHEME

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

Glossary of Terms (continued)

DERIVATIVE

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

EMPLOYER CONTRIBUTION RATES

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

EQUITIES

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

EXCHANGE TRADED

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

FINANCIAL ASSETS

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

FINANCIAL INSTRUMENT

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

FINANCIAL LIABILITIES

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

FORWARD FOREIGN EXCHANGE DERIVATIVE

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

INDEX

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

OVER THE COUNTER

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

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

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

PROJECTED UNIT METHOD – PENSION FUND VALUATION

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

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

Glossary of Terms (continued)

RELATED PARTIES

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

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

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

RELATED PARTY TRANSACTION

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

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

RETURN

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

SCHEDULED BODY

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

THE CODE

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

UNREALISED GAINS/LOSSES

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

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

Contact Information

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

FOR FURTHER DETAILS PLEASE CONTACT:

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8.

Appendices

Governance Compliance Statement

BACKGROUND

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

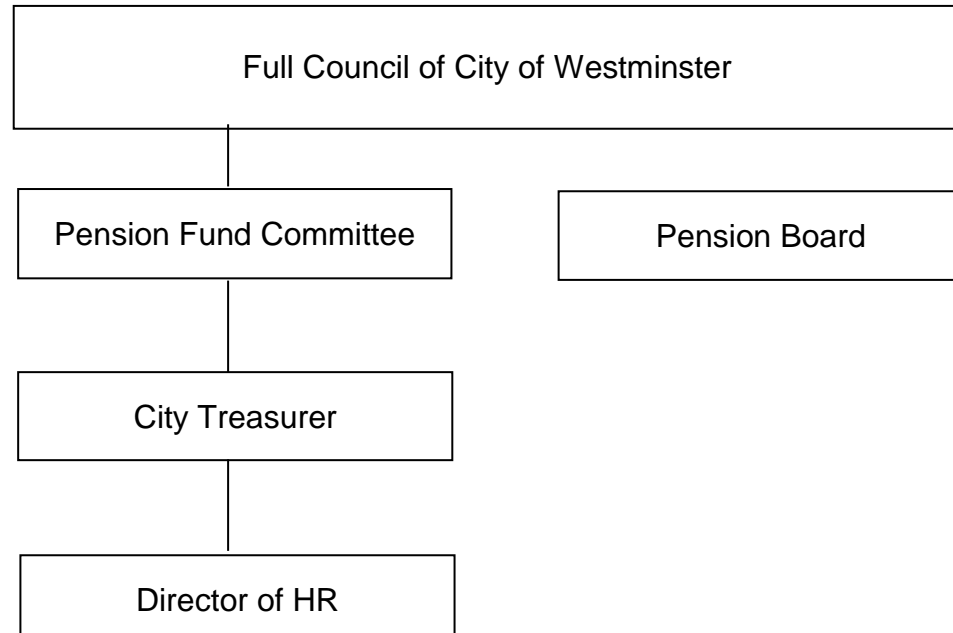
Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund’s governance arrangements.

Information on the extent of the Fund’s compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

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

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



Governance Compliance Statement (continued)

PENSION FUND COMMITTEE

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

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

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

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

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

The terms of reference for the Pension Fund Committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
2. To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final statement of accounts of the Superannuation Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the Auditor's report on the governance of the Pension Fund.
12. To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
13. To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
14. To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

Governance Compliance Statement (continued)

15. To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
16. To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
17. To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures
18. To determine any other investment or pension fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

PENSION BOARD

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

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

The membership of the Board is as follows:

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

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

COMPLIANCE WITH STATUTORY GUIDANCE

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

REVIEW OF STATEMENT

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

Governance Compliance Statement (continued)

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

Governance Compliance Statement (continued)

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

Statement of Investment Principles

BACKGROUND

Legal

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

The Scheme

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

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

Pension Fund Committee

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

Advice

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

Investment Managers

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

INVESTMENT RESPONSIBILITIES

Pension Fund Committee

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

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

Statement of Investment Principles (continued)

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

Pension Fund Officers

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

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

Statement of Investment Principles (continued)

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

Investment Managers

The investment managers are responsible for:

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

Custodian

The custodian is responsible for:

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

Investment Adviser

The investment adviser is responsible for:

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

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

Fund Actuary

The Fund Actuary is responsible for:

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

Statement of Investment Principles (continued)

PENSION FUND LIABILITIES

Overview

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

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

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

Scheme Benefits

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

Funding the Benefits

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

Actuarial Valuation

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

INVESTMENT STRATEGY

Aims and Purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

Statement of Investment Principles (continued)

Investment Strategy

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

Strategic Benchmark

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

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

Performance targets

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

Reporting

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

Review

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

INVESTMENTS

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

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

Statement of Investment Principles (continued)

Statutory Investment Limits

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

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

Statement of Investment Principles (continued)

Risks

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

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

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

Rate of return

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

Realisation of investments

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

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

Stock Lending

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

Statement of Investment Principles (continued)

Investment Managers

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

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

Statement of Investment Principles (continued)

SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund.

Accordingly, the Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

VOTING RIGHTS

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

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

COMPLIANCE WITH MYNERS' PRINCIPLES OF INVESTMENT DECISION MAKING

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

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

Statement of Investment Principles (continued)

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

Statement of Investment Principles (continued)

Principle 5: Responsible Ownership

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

Principle 6: Transparency and Reporting

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

Communication Policy

BACKGROUND

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

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

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

GENERAL COMMUNICATIONS

Correspondence:

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

Telephone:

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

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

Briefing Sessions and Pension Surgeries:-

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

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

Pension's Intranet site:

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

It also contains:

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

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

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

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

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

Communication Policy (continued)

PROSPECTIVE SCHEME MEMBERS

Scheme Guides

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

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

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

OTHER EMPLOYERS

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

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

OTHER BODIES

London Pensions Officer's Group:

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

National Association of Pension Funds (NAPF):

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

Seminars

Representatives of the Council regularly participate at seminars and conferences.

Communication Policy (continued)

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

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

Communication Policy (continued)

FURTHER INFORMATION

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

SURREY COUNTY COUNCIL

Pension Services (WCC Team)
Surrey County Council
Room 243, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: *myhelpdeskpensions@surreycc.gov.uk*

General enquiries and complaints:

Phone: 0300 200 1031

Funding Strategy Statement

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

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

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

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

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

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

2.2 The purpose of the Fund is to:

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

3. RESPONSIBILITIES OF KEY PARTIES

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

The Administering Authority

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

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

Funding Strategy Statement (continued)

Individual Employers

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

The Fund Actuary

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

4. FUNDING TARGET, SOLVENCY AND METHODS

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

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

Funding Strategy Statement (continued)

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

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

5. VALUATION ASSUMPTIONS

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

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

Financial Assumptions: Future Price Inflation

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

Financial Assumptions: Future Pay Inflation

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

Financial Assumptions: Pension Increases

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

Financial Assumptions: Future Investment Returns/Discount Rate

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

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

Financial Assumptions: Value of Assets

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

Statistical Assumptions

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

Funding Strategy Statement (continued)

6. DEFICIT RECOVERY OR SURPLUS AMORTISATION PERIODS

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

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

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

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

7. POOLING OF EMPLOYERS

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

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

Funding Strategy Statement (continued)

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

8. ADMISSION OF NEW EMPLOYERS

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

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

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

9. CESSATION VALUATIONS

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

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

10. LINKS TO THE STATEMENT OF INVESTMENT PRINCIPLES

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

11. KEY RISKS AND CONTROLS

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

Financial Risks

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

Funding Strategy Statement (continued)

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

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

Demographic Risks

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

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

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

Regulatory Risks

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

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

Governance Risks

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

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

11.11 To mitigate this risk, the Administering Authority monitors the position of employers participating in the Fund, particularly those which

may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

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

12. MONITORING

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

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

