



City of Westminster

# **Annual Report and Accounts Superannuation Fund**

**31 March 2011**

# PAGE OF CONTENTS

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<b>Scheme Management and Advisors .....</b>	<b>3</b>
<b>Introduction - Understanding the Fund .....</b>	<b>4</b>
<b>Investment Policy and Performance .....</b>	<b>5</b>
<b>Abridged Financial Statements and Reports .....</b>	<b>12</b>
<b>Governance Arrangements .....</b>	<b>18</b>
<b>Risk Management .....</b>	<b>21</b>
<b>Governance Documents .....</b>	<b>25</b>
<b>Pensions Administration.....</b>	<b>26</b>
<b>Glossary .....</b>	<b>35</b>
<b>Contacts.....</b>	<b>37</b>
<b>Appendix A .....</b>	<b>38</b>

## **SCHEME MANAGEMENT AND ADVISORS (as at 31 March 2011)**

Administering Authority	The City of Westminster
Superannuation Committee	Cllr Suhail Rahuja (Chair) Cllr. Anthony Devenish Cllr. Margaret Doyle Cllr. Cyril Nemeth Cllr. Ian Rowley Cllr. Patricia McAllister
Officers:	Barbara Moorhouse (Chief Operating Officer) Jonathan Hunt (Director of Corporate Finance and Investment)
Permitted Observers:	Lord Mayor Leader of the Council Leader of the Opposition Union Representative
Advisers:	Deloitte Total Reward and Benefits Ltd.
Actuaries	Aon Hewitt Associates Ltd.
AVC Providers	AEGON (Scottish Equitable Equitable Life
Auditors	Audit Commission
Custodians	Bank of New York Mellon SA/NV
Investment Managers	Hermes Insight Investment Management Legal & General Majedie Asset Management Newton Investment Management Limited West End of London Property Unit Trust State Street Global Advisors International State Street Global advisors UK
Legal Advisors	Sharpe Pritchard LLP
Scheme Administrator	City of Westminster

## **INTRODUCTION – UNDERSTANDING THE FUND**

The City of Westminster Superannuation Fund (the Fund) is an occupational public sector pension set up under the Superannuation Act 1972. The Act requires the Council to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.

The Fund's objectives are to provide a pool of assets sufficient to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for its members. The investment objectives are to ensure the Pension Fund has sufficient assets to pay pensions and other benefits by maximising investment returns over the long term within acceptable risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined). This is set out in the Statement of Investment Principles.

The Council operates a multi-employer funded final salary scheme where the retirement benefits are determined independently from the investments of the scheme (a Defined Benefit Scheme). Employers and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

### **At a glance**

- The core benefits of the scheme are: a guaranteed pension based on final pay and the length of service; a tax free lump sum of three times the annual pension; a pension for spouses or children; pension increases in line with inflation (currently measured by the Retail Price Index - to be superseded by the Consumer Price Index).
- The Westminster Superannuation Fund currently consists of 27 scheduled and 7 admitted employers.
- The net assets of the Fund were valued at £707.5 million as at 31 March 2011.
- The Fund had a total of 19,494 members (including undecided joiners and those with frozen refunds) at 31 March 2011 of which 3,903 were active.
- Pensions are paid to 4,989 pensioners and dependants every month.
- There are currently 5,699 members with rights to deferred benefits.

### **Contribution policy**

The majority of employers participating in the Fund pay different rates of contributions depending on their history, their current staff profile and any recovery period agreed with the Fund.

Employer contribution rates were reviewed as part of the triennial actuarial valuation of the fund, the latest having been carried out as at 31 March 2010. This showed the Fund was 74% funded. The deficit of 26% is to be recovered by additional employer contributions over a range of different recovery periods of up to 30 years depending on employer to return the funding level to 100%.

### **Investment Management**

As of 31 March 2011, the investment portfolio was managed by eight external managers. The managers have discretion to buy and sell investments within the constraints set by the Superannuation Committee and specified in their investment management agreements. The investment managers as at 31 March 2011 are:

- Hermes
- Insight Investment Management
- Legal and General
- Majedie Asset Management
- Newton Investment Management Limited
- West End of London Property Unit Trust
- State Street Global Advisors UK
- State Street Global Advisors International

## Value of Assets under Management

The value of assets under management (AUM) as at 31 March 2011 is shown below.

Asset Class	31 March 2011		31 March 2010	
	£m	%	£m	%
UK Equity	280.1	40.3	257.1	35.4
Global Equity	255.3	36.7	234.1	34.1
Fixed Interest Gilts	32.7	4.7	31.4	6.4
Sterling Non-Gilts	105.7	15.2	100.6	16.5
Property	21.2	3.1	-	-
Asset Backed Securities	-	-	42.2	7.6
Cash	12.6	-	0.8	0.0
<b>Total AUM</b>	<b>707.6</b>	<b>100.0</b>	<b>666.2</b>	<b>100.0</b>

Source: Deloitte

## INVESTMENT POLICY AND PERFORMANCE

### Investment Principles

The Council is the designated statutory body responsible for administering the Fund. The Council has delegated certain investment powers to a Superannuation Committee. The Superannuation Committee is responsible for all aspects of the investment and other management of the Fund as set out in the Statement of Investment Principals in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2001 and subsequent regulations.

The main priority of the Council and the Superannuation Committee, when considering the investment policy is to maximise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled. To support this, investments are spread across a number of asset types, including equities, bonds, property and cash. Spreading the investments in this way reduces the risk of a sharp fall in one particular market having a substantial impact on the whole fund.

### Strategy

The investment objective is to ensure that the Fund's investments maximise the likelihood that benefits will be paid to members as they fall due and to ensure the continued long-term financial support from the sponsoring employer.

The Fund's strategic allocation during the year to 31 March 2011 comprised approximately 20% in assets more closely reflecting the nature of the liabilities and 80% in return seeking assets, split between UK and International equities and property. Additionally the Fund has in place a currency hedging policy for the non-sterling equity investments set at 50%.

The Superannuation Committee, having regard to funding levels, cash needs and risk tolerances, determines the overall Fund asset mix. As at 31 March 2011, the Fund's benchmark investment strategy was as follows:

Asset Class	Benchmark Allocation* (%)
<i>UK Equity</i>	33.8
<i>Global Equity</i>	41.2
<b>Sub-total: Equities</b>	<b>75.0</b>
<i>Fixed Interest Gilts</i>	5.0
<i>Sterling Non-Gilts</i>	15.0
<b>Sub-total: Bonds</b>	<b>20.0</b>
<i>Property</i>	5.0
<b>Total</b>	<b>100.0</b>

\*Since the period under review, the Fund's asset allocation has changed to 65% equities: 20% bonds: 15% property.

The Superannuation Committee is currently reviewing the suitability of the Fund's benchmarks and its investment strategy.

The Fund's Policy on risk dictates that the Fund Managers are required to implement risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. Each fund manager is set certain risk boundaries depending upon their strategy, asset class and the markets they operate in having due regard to the overall fund risk. Fund Managers are required to report quarterly and to seek approval for any positions that go beyond the agreed risks parameters set for their strategies.

### General

All investments have been managed during the year to 31 March 2011 by the following investment managers:

**Equity:** Majedie Asset Management (UK), State Street Global Advisors\* MPF (UK and Global), Newton Investment Management (Global)

**Bonds:** Insight Investment Management Limited,

**Property:** Schrodgers Investment Management Limited (West End of London Property Unit Trust and Legal & General Managed Funds Property Unit Trust), Hermes Fund Managers Limited

**Cash:** Westminster In-house account

\* Also denoted by SSgA in this report

During the year, there were two investment managers appointed (Hermes Fund Managers Ltd and Schrodgers Investment Management Ltd) with one of these appointments subsequently terminated (Schrodgers Investment Management Ltd ) due to a change in the Fund's approach.

### Investment Report – 12 months to 31 March 2011

#### Markets Summary

During the year, further quantitative easing measures were enacted by the US central bank, the Federal Reserve. Western financial markets responded positively. Indeed, investors spent much of the year looking forward to when the resulting liquidity would boost the economy. This inevitably led to speculation over when the Federal Reserve would begin tightening monetary policy in response to already heightening inflationary pressures.

Speculation over monetary policy was similarly rife in the UK, but just like the Federal Reserve, the Bank of England persistently dampened any prospect of a near term move on interest rates. Consequently, financial markets performed well.

The ECB was equally relaxed about inflation and as a result cut interest rates twice during the year. Japan continued to suffer from the effects of deflation and uninspiring economic growth, only to be hit by an earthquake and subsequent tsunami in March that devastated the north eastern part of the country.

Emerging economies continued their rapid growth. Domestic equity markets, however, were volatile as inflation accelerated and many emerging countries raised interest rates. Investors' concern was that higher interest rates would not only cause growth to slow in key economies, but that this would expose a number of domestic economic imbalances that could have wider adverse ramifications.

The last few months of the year also saw the earlier market optimism over a strengthening US economic recovery begin to wane. However, support was provided by an expectation that the Fed would enact further liquidity measures if the economy continued to slow. Similar speculation began to take hold in the UK, despite persistently high inflation. The implication was that central banks would target the wealth effect by way of higher asset markets through quantitative easing. And if the US economy eventually recovered, this would benefit risk assets further while the resulting pressure for a stronger dollar would help support so-called safe assets such as government bonds.-Corporate bonds also benefited from such a benign investor view of the world.

## Markets Returns

	1 year	3 years (p.a.)	10 years (p.a.)
<b>UK Equities</b>			
FTSE All Share	8.7%	5.4%	4.7%
<b>Global Equities</b>			
FTSE AW World (sterling investor)	8.4%	8.6%	4.6%
FTSE AW World (local investor)	9.5%	1.0%	
<b>UK Bonds</b>			
FTA All Stocks Gilts	5.2%	5.3%	5.1%
FTA > 15 year Gilts	6.9%	5.1%	4.9%
FTA > 15 year Index-linked Gilts	5.4%	4.0%	6.8%
iBoxx All Stocks Non-Gilt (sterling)	5.2%	6.1%	5.4%
LIBOR 3 Months	0.7%	2.3%	4.1%
<b>Global Bonds</b>			
Merrill Lynch Global Broad Mkt Corp	5.0%	6.3%	5.2%
Merrill Lynch High Yield BB-B	12.7%	11.3%	7.7%
<b>Other</b>			
IPD Monthly	10.7%	-1.4%	6.6%
UK RPI	4.8%	2.9%	3.0%
HFRI Index	5.2%	-0.8%	4.2%

Source: Deloitte, Bloomberg and Merrill Lynch

## Fund Returns

The table below summarises the investment performance of the total Fund and individual managers for the one and three year periods to 31 March 2011. Since inception figures relate

to 1 June 2006 for the total Fund. Schroders and Hermes were appointed managers during the year, the former's appointment as a fund-of-funds manager subsequently terminated because the Pension Fund felt the assets could be more efficiently managed utilising its own resources.

Manager	Last Year			Last 3 Years'			Since inception <sup>1</sup>		
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)
Majedie	9.3	8.7	0.6	10.8	5.4	5.4	9.1	4.7	4.4
SSgA UK	8.8	8.7	0.1	5.8	5.4	0.4	3.7	3.5	0.2
SSgA Int'l <sup>2</sup>	8.2	8.1	0.1	n/a	n/a		8.2	8.1	0.1
Newton	9.8	6.5	3.3	1.8	2.7	-0.9	4.3	3.5	0.8
Insight	3.7	4.9	-1.2	5.7	5.7	0.0	4.5	4.7	-0.2
Schroders <sup>3</sup>	n/a	n/a		n/a	n/a		5.1	4.9	0.2
Hermes <sup>3,4</sup>	n/a	n/a		n/a	n/a		-1.9	4.0	-5.9
<b>Total Fund</b>	<b>7.8</b>	<b>7.5</b>	<b>0.3</b>	<b>4.1</b>	<b>4.8</b>	<b>-0.7</b>	<b>2.5</b>	<b>2.6</b>	<b>-0.1</b>

Note: Figures are quoted gross of fees.

Source: Majedie, SSgA, Newton, Schroders, Hermes and BNY Mellon

<sup>(1)</sup> Estimated by Deloitte. Inception dates are taken as: Total Fund 1 June 2006; Majedie 31 May 2006; SSgA (UK Equity) 30 May 2008; SSgA (Global equity) 11 March 2010 ; Newton 31 May 2006 and Insight 1 June 2006.

<sup>(2)</sup> SSgA International portfolio and benchmark performances are 50% hedged from 9 March 2011.

<sup>(3)</sup> The performance of Schroders and Hermes property funds is measured from the inception date of 8 October 2010 and 26 October 2010 respectively. Benchmark since inception performance is measured from 30 September 2010.

<sup>(4)</sup> Figures for Hermes Q4 2010 are Deloitte estimates.

## Review of Fund Investment Performance

The Fund outperformed its benchmark by 0.3% over the year. Contributing to this was the significant performance by Newton Investment Management due to a bias for stable growth companies and good stock selection within the technology sector. The performance of Insight over the year was adversely affected by the inclusion of the Fund's Asset Backed Securities holdings that were sold down at the end of Q3 2010.

Hermes is estimated to have underperformed its benchmark over the year, in large part due to the Fund's cash investment transitioning into property assets during Q4 2010.

The table below shows the asset allocation split by asset class as at 31 March 2010 and 31 March 2011.

Asset Class	31 March 2010 (£m)	31 March 2010 (%)	31 March 2011 (£m)	31 March 2011 (%)	Benchmark Allocation (%)
UK Equity (Active)	139.5	21.0	160.4	23.1	16.9
UK Equity (Passive)	117.6	17.7	119.7	17.2	16.9
<b>Total UK Equity</b>	<b>257.1</b>	<b>38.6</b>	<b>280.1</b>	<b>40.3</b>	<b>33.8</b>
Global Equity (Active)	133.3	20.0	153.7	22.1	20.6
Global Equity (Passive)	101.1	15.2	101.6	14.6	20.6
<b>Total Global Equity</b>	<b>234.3</b>	<b>35.2</b>	<b>255.3</b>	<b>36.7</b>	<b>41.2</b>
Fixed Interest Gilts	31.4	4.7	32.7	4.7	5.0
Sterling non-Gilts	142.8	21.4	105.7	15.2	15.0
<b>Total Bonds</b>	<b>174.2</b>	<b>26.2</b>	<b>138.3</b>	<b>19.9</b>	<b>20.0</b>
Property			21.2	3.1	5.0
<b>Total</b>	<b>665.5</b>	<b>100.0</b>	<b>695</b>	<b>100.0</b>	<b>100.0</b>
Westminster In-House Account	0.8		12.6		
<b>Total</b>	<b>666.3</b>		<b>707.5</b>		

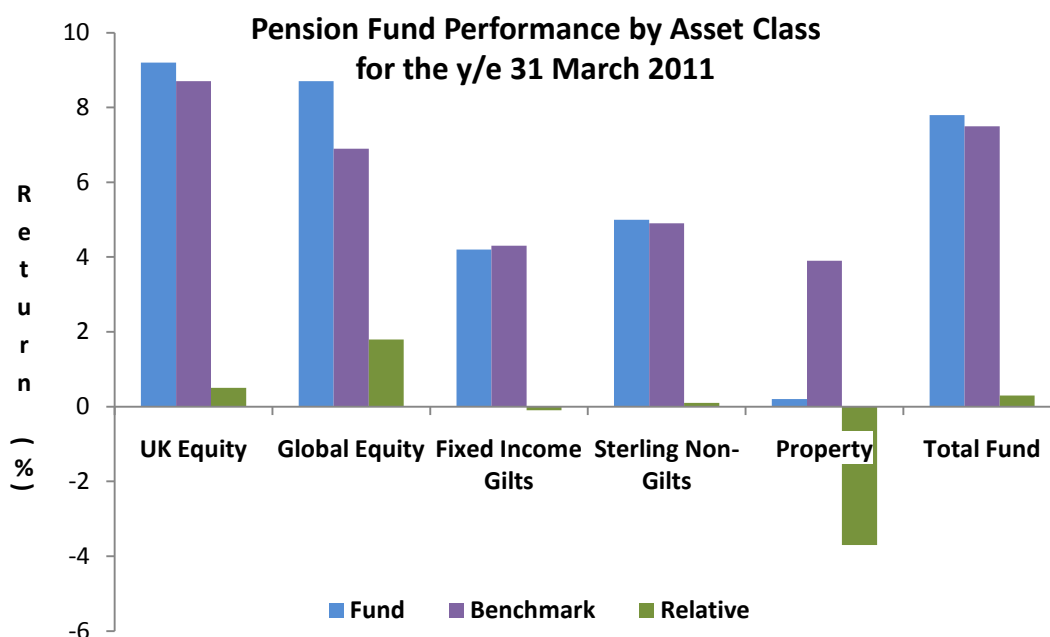
Note: Totals may not add-up due to rounding

Source: Deloitte (Majedie, SSgA, Newton, Insight, Schroders, Hermes and BNY Mellon)

As at 31 March 2011 the Fund was overweight relative to UK equities (+6.5%) and underweight to global equity (-4.5%). Overall the Fund was overweight to its strategic equity benchmark by 2% (excluding cash).

The Fund added allocations to property but was underweight relative to its strategic benchmark at the valuation date. The Westminster in-house account balance as at 31 March 2011 was a transient holding awaiting investment.

Over the year to 31 March 2011 the Fund's assets increased by 7.8%, driven by the performance of the managers and general markets. The performance of the fund for the year to 31 March 2011 by asset class is illustrated in the following graph:



Source: Deloitte (Majedie, SSgA, Newton, Insight and Hermes)

### Largest Holdings (Top 5) by percentage of whole portfolio (as at 31 March 2011)

Holdings	Sector	%
MPF UK Equity	Other investment trusts – UK	16.92
MPF International Equity Index	Other Investment Trusts – UK	14.35
MAJEDIE ASSET MGT SPECIAL SITS INV B ACC NAV	UK equity	2.19
Royal Dutch Shell 'B' Class	Energy – UK	2.04
HERMES Property UT PPTY	Unit Trust - Property	2.03

## **Largest Holdings (Top 5) outside of pooled fund investments by percentage of whole portfolio (as at 31 March 2011)**

<b>Holdings</b>	<b>Sector</b>	<b>%</b>
Royal Dutch Shell 'B' Class	Energy – UK	2.04
GLAXOSMITHKLINE ORD GBP0.25	Healthcare – UK	1.85
VODAFONE GROUP ORD USD0.11428571	Services (Telecom) – UK	1.74
BP PLC ORD USD.25	Energy – UK	1.63
HSBC HLDGS ORD USD0.50 (UK)	Financial – UK	1.1

### **Ethical, Environmental Investment and Activism**

The Council wishes to have some influence on issues of environmental or ethical concern with regard to the companies in which the Fund is a shareholder. It will seek to codify its approach with Fund Managers and to use the services of specialist agencies as necessary to identify issues of concern. The Council expects the Fund Managers to take a note of the possibility that substantial ethical or environmental considerations may be among those bringing a particular investment decision into the “potentially contentious” category.

The Superannuation Committee delegates its voting rights in relation to shares held to its Investment Managers. The Investment Managers are however monitored through quarterly reporting of any action taken.

### **The Myners Review, Code of Best Practice and Hutton report**

In 2001, a set of ten principles for Defined Benefit Pension Schemes was introduced as a voluntary code of best corporate governance practice following a review of institutional investment by Lord Myners. These became widely known as the Myners’ Principles. In 2008, these principles were narrowed down to six following a review by the National Association of Pension Funds. This was followed by a Government consultation culminating in a required statement of the level of pension fund compliance with these new principles being incorporated into the regulations in 2010. The Fund complies with the revised regulations as set out in the Statement of Investment Principles that is available on request or from the Councils website at

[www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/)

The Council and the Superannuation Committee understand that the primary purpose of the Code of Best Practice is to ensure that the Council and the Committee have the right skill-set and decision-making structures in place with clear objectives for the Fund and an appropriate and well-documented strategy in place for achieving these objectives. In a similar vein, the Council and the Superannuation Committee know that they should set explicit goals for the fund managers used by the Fund.

The Council and the Superannuation Committee continually review their training needs and skills in order to ensure effective decision-making and where appropriate, the Council and the Superannuation Committee take independent expert advice. Training is provided by Investment Managers and the Custodian, or professional development training events.

The Independent Public Service Pensions Commission, chaired by Lord Hutton, was established to review all aspects of public sector pension provision. The Commission’s final report was issued on 10 March 2011 and proposes a number of changes, including an increase

in normal retirement age and the definition of earnings on which pensions are to be based. However, no specific changes were announced or incorporated into the regulations by the year end date. This situation will be monitored by the Superannuation Committee.

## ABRIDGED FINANCIAL STATEMENTS AND REPORTS

The following are abridged financial statements taken from the full audited financial statements of City of Westminster Superannuation Fund for the year ended 31 March 2011. The auditor's report is attached at Appendix A. To access the complete 2011 financial statements for City of Westminster Superannuation Fund please visit our website [www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/)

### Income and Expenditure Account as at 31 March 2011

<b>Contributions and benefits</b>	<b>Note</b>	<b>2010/11 (£'000)</b>	<b>2009/10 (£'000)</b>
Contributions	1	32,364	37,871
Transfers in	2	5,367	10,682
Other Income	3	337	52
		<b>38,068</b>	<b>48,605</b>
Benefits	4	-37,250	-37,356
Payment to and on account of leavers	5	-9,033	-6,126
Other Payments	6	-	-13
Administrative & other expenses borne by scheme	7	-1,226	-1,260
		<b>-47,509</b>	<b>-44,754</b>
<b>Net additions/withdrawals from dealing with members</b>		<b>-9,441</b>	<b>3,850</b>
<b>Returns on investment</b>			
Investment income	8	14,370	17,275
Change in market value of investments (realised & unrealised)	9	35,558	170,639
Investment management expenses	7	-2,961	-3,765
Taxation	8	-702	-837
<b>Net return on investments</b>		<b>46,265</b>	<b>183,312</b>
<b>Net increase/(decrease) in fund in year</b>		<b>36,823</b>	<b>187,162</b>
Net assets of the scheme at 1 April		670,371	483,238
Prior year adjustment			-29
<b>Net assets of the scheme at 31 March</b>		<b>707,194</b>	<b>670,371</b>

## Net Asset Statement as at 31 March 2011

	Note	2010/11 (£'000)	2009/10 (re-presented) (£'000)
<b>Investment Assets</b>	9		
Fixed interest securities	9(b)	117,901	174,883
Equities	9(c)	289,827	258,779
Pooled investment vehicles	9(d)	267,932	236,001
Derivative contracts	9(e)	281	63
Cash	9(f)	28,723	13,426
Other investment balances – outstanding dividends	9(g)	3,490	4,485
Other investment balances – cash deposits	9(g)	649	-18,469
<b>Investment liabilities</b>	9		
Derivative contracts – Futures contracts	9(e)	-3	-25
Derivative contracts - Forward FX	9(e)	-1,459	-2,479
<b>Current assets</b>	10		
Cash at Bank		-	4,021
Contributions due from employers		342	448
Contributions due from employees		170	211
Contributions due in respect of early retirements		1,316	331
Other current assets		260	
<b>Current liabilities</b>	11		
Creditors			
Accrued expenses		-485	-517
Unpaid benefits		-1,010	-277
Accrued management expenses		-517	-441
Other credit balances		-224	-69
<b>Net assets of the scheme as at 31 March 2010</b>		<b>707,194</b>	<b>670,371</b>

The pension fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

## Statement of responsibilities

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### Respective responsibilities of the Authority, Chief Operating Officer and auditor

#### The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that the Chief Operating Officer has the responsibility for the administration of those affairs;
- To manage its affairs to secure economic, efficient, and effective use of resources to safeguard its assets; and,
- To approve the statement of accounts.

#### The Responsibilities of the Chief Operating Officer

The Chief Operating Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts the Chief Operating Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date; and,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

(Signature needed)

Chief Operating Officer

# Actuarial Report on Funds

## Statement of the Actuary for the year ended 31 March 2011

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the City of Westminster Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

### Actuarial Position

1. Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £670.4M) covering 74% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
  - 12.4% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

#### Plus

- 8.0% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 30 years from 1 April 2011, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.
4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, the recovery period and the funding strategy agreed with the Administering Authority.
  5. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 31 March 2011 which is appended to our report of the same date on the actuarial valuation.
  6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.
  7. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	7.5% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year
Rate of general pay increases	5.3% a year
Rate of increases to pensions in payment	3.3% a year
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.
9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Westminster City Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Westminster City Council, in respect of this statement.

Aon Hewitt Limited

June 2011

## Statement on Promised Retirement Benefits

CIPFA's Code of Practice on Local authority accounting now requires disclosure of the promised retirement benefits based on projected salaries. As a result, an independent actuarial valuation of the pension funds liabilities as at the latest formal triennial valuation dates, 31 March 2010 and 31 March 2007, was carried out and the following table summarises the results:

	Value as at 31 March 2010 £m	Value as at 31 March 2007 £m
Actuarial present value of the promised retirement benefits	1,243.97	992.36

The Whole of Pension Fund Disclosure Report under IAS26 detailing the valuation methodology of the liabilities as at the latest formal triennial valuation dates together with the assumptions used is available on request or via the Council's website at [www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/)

## **GOVERNANCE ARRANGEMENTS**

The governance policy sets out the pension fund's scheme of delegation and terms of reference, structure and operational procedures of the delegation.

The Council is the Administering Authority for the Pension Fund. The Council has delegated to the Superannuation Committee various powers and duties in respect of its administration of the fund. The Superannuation Committee is an Executive body.

The formal decision making body is the Superannuation Committee. It has full delegated powers from the council and considers the following activities of the fund:

- Investment management arrangements;
- Monitoring investment activity and performance;
- Overseeing administrative activities;
- Ensuring compliance with relevant laws and regulations;
- Provision of guidance to officers in exercising delegated powers.

### **Superannuation Committee**

The Committee is comprised of 6 members, all of whom are Elected Members from the Council. The majority party provides 5 Members and the Opposition provides one. Committee meetings may have 4 others who attend as Observers. A Trade Union Official may represent the Fund's members. All Observers receive copies of agendas and reports.

The Superannuation Committee meets at least four times a year. Its responsibilities are:

1. To agree the investment strategy having regard to the advice of the Fund Managers and the independent adviser.
2. To monitor performance of the Fund and of the individual Fund Managers.
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve and publish the pension fund annual report.
6. To prepare and publish a pension administration strategy.
7. To make an admission agreement with any admission body.
8. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
9. To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
10. 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).

### **Role of S151 Officer: Chief Operating Officer**

The role of section 151 officer is delegated to the Chief Operating Officer of City of Westminster, pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000 to:

“Undertake all day to day administration of the Pension Fund within the policy laid down by the Superannuation Committee including the authorisation of admission agreements with transferee admission bodies pursuant to Best Value arrangements, as required by the Local Government Pension Scheme Regulations.”

The Chief Operating Officer may authorise officers in its department to exercise on his/her behalf functions delegated to it. Any decisions taken under this authority shall remain the responsibility of the Chief Operating Officer and must be taken in its name and it shall remain accountable for such decisions.

### **Accountability and Publication of Information**

Details of Superannuation Committee meetings are published on the Council’s website together with agendas and publicly available papers.

The Annual Pension Fund Reports and Statement of Accounts, reporting on activities and investment performance of the fund during the year are published and circulated to all participating employers. The Council’s Statement of Accounts, included in this report, is also available on the website

<http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/>

All Reports and Policies relating to the pension fund are available on request or via the website

<http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/>

### **Governance Compliance Statement**

The Local Government Pension Scheme (Administration) Regulations 2008 and its predecessor regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended) require administering authorities to prepare, publish and maintain a governance compliance statement; and to measure its governance arrangements against a set of best practice principles, on a continuum of not compliant to fully compliant. Where the fund’s governance arrangements are not compliant, there is a further requirement to explain departures from best practice principles.

The governance compliance statement adopts a principles based approach requiring the Council, as administering authority to act in the spirit of promoting good governance across public pension schemes. The Department of Communities and Local Government has also issued guidance which indicates in detail the governance principles against which compliance should be measured. These are

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training / Facility time/ Expenses.

The Governance Compliance Statement attached to this document is also available on the website

<http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/>

### **Policy and Process of Managing Conflict of Interest**

Committee Members and Officers directly involved with the administration of the Fund are required to declare any conflicts of interests or potential conflicts at the commencement of all meetings. Where a conflict is considered material, the Member or Officer may be asked to either refrain from participating or to exclude themselves from the meeting for the discussion and consideration of the agenda item.

# **RISK MANAGEMENT**

## **Risk Management and Governance**

The legal responsibility for the prudent and effective stewardship of the City of Westminster Superannuation Fund, administration of benefits and strategic management of fund assets rests with the Superannuation Committee, established by the Council. This Committee has full delegated authority to make investment decisions, terms of which are set out in the constitution and terms of reference. It receives advice from the Chief Operating Officer and as necessary from the Fund's appointed actuary, investment managers, custodian and investment advisor(s).

The membership of the Superannuation Committee comprises of officers and six Elected Members of the Council, who each have voting rights and meet quarterly. The Committee has regard for the Myners' Principles, as updated and consolidated post 2008 by the Government. The committee manages the pension fund in accordance with LGPS regulations. Independent observers provide effective scrutiny of the decision making process.

The Committee has published a Governance Compliance Statement reporting its compliance against a set of best practice principles (on a continuum of not compliant to fully compliant).

All Committee Members attend formal training to enable the effective challenge and evaluation of reports and advice they receive from external advisors and managers. Decision making, due diligence and discharge of the fiduciary duty to pension fund stakeholders is therefore supported by current policies and procedures.

## **How risks are identified, managed and reviewed**

The control environment represents the overall framework within the City of Westminster for establishing and reviewing the effectiveness of specific controls. In this context the Superannuation Committee provides an overall framework for strategy and planning, directing and controlling investment management, investment administration and pension fund administration for members and employers. The Committee meets on a quarterly basis to address risk issues and to review asset manager performance and other risk reporting measures. The activities of the Superannuation Committee may be overseen by the Observers.

The implementation and ongoing maintenance of comprehensive and effective risk management is the responsibility of all City of Westminster Employees, Elected Members and Third Parties providing services on its behalf. The authority maintains a system of internal control to identify potential events that may affect the pension fund and manage risk to be within its risk appetite to provide reasonable assurance regarding the achievement of specified Pension Fund objectives.

There are clear roles, responsibility and accountability for the management of risk. The Superannuation Committee accepts its fiduciary responsibility to ensure it manages risk to provide reasonable assurance.

The Chief Operating Officer is proactive in the identification and evaluation of risks inherent in the Council's business processes. The risk management system consists of internal controls, policies, procedures and practices to identify, measure, mitigate and monitor risk. The Chief Operating Officer is responsible for monitoring the risk environment continuously and identifying and reducing risks on a daily basis. The Chief Operating Officer ensures as far as possible that all financial and non financial risks are identified and managed within acceptable

parameters, as required by the Superannuation Committee and Internal Audit. These accountabilities are set out in the sections below:

**Reporting to the Superannuation Committee is the responsibility of the Chief Operating Officer who monitors and directs all activities to ensure:**

- Authority and responsibility is assigned within the organisation structure;
- Provision of adequate staffing;
- Adequate training in job functions and related policies and risk management;
- Efficient use of resources;
- Management information and reporting; and,
- Establishing risk monitoring and control systems within the City Council.

Reporting to the Director of Resources is the Human Resources Department and London Pension Fund Authority (LPFA). The Human Resources Department has policies and practices in place relating to Pension Fund administration and uses a risk based approach to ensure compliance with policies and laws and regulations. The LPFA is contracted with the responsibility for the administration of the pension fund. This arrangements means it also provides independent oversight of the activities of the Scheme.

The Internal Audit Department performs independent evaluation of the control environment using a risk based approach including compliance with policies and laws and regulations. Significant issues identified by internal audit are reported through formally established and agreed channels including, ultimately, the Audit Committee and/or the Police where serious fraud is uncovered. All issues raised with line managers are documented and monitored by Internal Audit to determine if and when corrective measures have been taken.

The Treasury and Pensions Unit, under the Director of Corporate Finance and Investment, are responsible for:

- Day-to-day administration and management matters such as:
  - Ensuring financial and regulatory compliance
  - Management information and reporting
  - Analysis of custodian and fund manager accounting
  - Analysis of membership information from human resources and LPFA
  - Analysis of actuarial information
  - Analysis of information from the Investment Advisor
  - Independent oversight of custodian and fund manager reconciliation
  - Reflecting all pension fund transactions in the general ledger
  - Independent oversight of pension administration (Human Resources & LPFA) reconciliations
  - Management of information received from the Actuary
- Managing service provider relationships, such as that with fund managers, the investment advisor and the Actuary to the Fund

- Management of the Procurement (manager selection) process including due diligence and selection
- Monitoring of fund managers and investments and ensuring compliance with both regulatory and internally determined requirements
- Advising the Committee on a wide range of issues from administration, legal and the management of the Fund

### **Key Risks**

The key risks facing the fund are set out in the Statement of Investment Principles. By way of summary these risks and mitigating actions are set out below:

1. Strategic risk relating to investment strategy including asset allocation:
  - Appointment of a number of specialist investment managers to secure a wider level of diversification of investment strategies and investments;
  - Investments in alternative assets are allowed only in property via pooled funds and the use of derivatives only for rebalancing asset allocation and hedging appropriate risks;
  - Alignment of risk appetite to funding objectives
2. Investment risks (including equity, credit and other asset class risk):
  - Investments are largely made in quoted assets. Investment in unquoted assets was only made through pooled funds.
  - Adherence to LGPS regulations on holdings and manager limits;
3. Performance risks
  - Asset allocation benchmarks are used and performance is monitored relative to the targets set

### **Investment Risk Management**

Reporting to the Director of Corporate Finance and investment is the Investment Advisor who carries out the following:

- independent evaluation and analysis of fund performance;
- reviewing benchmarks and asset allocation; financial markets review; and,
- Reviewing changes in the Investment Manager's business.

Reports are received from the fund manager to the Investment Advisor for independent evaluation. These evaluations are presented to the Director of Corporate Finance and investment for review.

Investments are monitored to ensure they are in accordance with the current requirements of the LGPS Regulations, which specify certain limitations on investments. Principally, these place a limit of 10% of the total value of the fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities, and not more than 35% of a portfolio can be invested in collective investment schemes managed by a single manager. And no more than 5% of the portfolio can be self-invested, that is, invested in connection with the employers business.

The performance of Investment Managers is monitored quarterly by the Superannuation Committee. The performance target for each Investment Manager varies depending upon the

investment assets and the nature of the mandate, but at a minimum is set to achieve a return equal to the specific benchmark(s), incorporated into the relevant Investment Management Agreements over a rolling 3 year period. Managers are monitored to ensure they adhere to the risk mitigation constraints set in relation to their benchmark. The Council adopts the Investment Managers' policies for Socially Responsible Investment.

### **Management of Third Party Risks**

At the end of the reporting year a report of the Statement on Auditing Standards (SAS) 70 is received from the Custodian, Bank of New York Mellon. Similarly, AAF01/06 or SAS70 statements are received for each Fund Manager. These reports describe internal controls in operation and tests of operating effectiveness in the third party's control environment. The statement also provides information on third party controls that may be relevant to the internal controls of clients.

In addition to the end of year reports, the Director of Corporate Finance and investment receives, on a daily basis, reports from the Custodian. The Custodian maintains a web-based real time platform with management information and reporting tools. The Custodian identifies all out of balance positions and together with the Fund Managers reconciles all transactions.

A further independent evaluation of the fund manager is carried out by the Director of Corporate Finance and investment prior to reporting to the Superannuation Committee. Typically, the view will encompass:

- Analysis of out of balance positions;
- Review of holdings including largest holdings/ breakdown by sector/ asset class/ security type;
- Review of out performance / underperformance;
- Review of actual asset allocation and planned asset allocation;
- Review of investment style bias; and,
- Degree of leverage / un-invested cash balances.

This review is presented to the Superannuation Committee with appropriate recommendations and an appropriate action plan.

## **GOVERNANCE DOCUMENTS**

### **Funding Strategy Statement**

Since 2004 Administering Authorities have been required to publish and maintain Funding Strategy Statements initially under regulation 76A of the 1997 regulations, but since 1 April 2008, under regulation 35 of the administration regulations. Under that regulation the Authority is required to keep its Statement under review and to make revisions as are appropriate following a material change. There have been no material changes to report in the Funding Strategy Statement since the latest document was prepared on 31 March 2010.

The financial position of the fund was assessed by the actuary against the agreed funding target at 31 March 2010. Analysis showed a shortfall of £238.1M relative to the agreed funding target, equivalent to a funding level of 74%.

The current funding strategy statement is available on request or via the website <http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/>

### **Statement of Investment Principles**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The purpose of this document is to satisfy the requirements of these Regulations, and to explain to Fund members, employers, and other interested parties how the Fund is managed, and the factors taken into account in doing so.

The Statement of Investment Principles outlines the broad investment principles governing the investment policy of the City of Westminster Superannuation Fund and demonstrates compliance with the updated and consolidated six new Myners' Principles.

This policy was presented to the Superannuation Committee on 23 November 2011. The Statement of Investment Principles is available on request or via the website <http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/>

### **Communications Policy Statement**

Regulation 106B of the 1997 Regulations introduced in December 2005 require administering authorities to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. This policy is available on request or via the website:

<http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/>

## **PENSION ADMINISTRATION**

The Fund's key objective is to promote good practice and focus on improving administration standards (data quality, record-keeping, dispute resolution and member communication). To ensure we have the right processes in place to deliver an excellent administrative service, manage administration risk and increase effectiveness by partnering with the right people with the right skills, the Fund appointed the London Pension Fund Authority in 1990. In 2010-2011 we continued to set out our renewed focus on improving standards for our members.

Pension administration is outsourced to the London Pension Fund Authority (LPFA). According to the LPFA Annual Report 2010-2011, the on time processing in all categories of work exceeded 96%, with an overall percentage of 99.72%. The LPFA reported receipt of twelve complaints for the year, which were all resolved.

### **Service Levels**

Good administration is vital to the success and viability of the Fund. Robust, clean, high quality data is central to the overall effectiveness of the scheme as it is the basis for the core activities of accurately calculating members' benefits and scheme liabilities. Processes employed to ensure data is accurate, complete and reliable include verification processes either by member or employer and random sampling and monitoring of error rates over a prescribed tolerance levels.

### **At a glance**

- Annual benefit statements were sent to 4,228 deferred and 2,715 active beneficiaries during the reporting period.
- The Fund has designed and delivered an Information Technology infrastructure and capability to achieve effective communication, minimise administrative costs and improve data quality. Examples are given below:
  - Website facility with ready reckoner (calculators) to provide estimates of entitlements.
  - Self Service PIN facility allows members to login, access their records and perform calculations independently.
  - E-Forms reduce manual error and allow employers to enact efficient and speedy data transfer
- Fund Administration costs in 2010/11 were £1.2m (£62 per member; 2009/10 £65 per member).
- The LPFA contract costs in 2010/11 amounted to £235,000 or £12.05 per member (2009/10: £280,000 or £14.40 per member).
- Average cases per LPFA member of staff is 2,741 (2009/10: 2,725 cases per member of staff).
- LPFA Staff to member ratio was 1:4,864 (2009:10: 1:4200)
- Complaints received in 2010-2011 were 12 or 0.15% of total workload (2009 -10: 5 complaints or 0.005% of total workload).

## Pension Administration Indicators 2010-2011: Top 10 Case types by number completed

Case type	Received	Completed	On time	% on time
Joiners	818	860	860	99.76
Transfers in	391	435	433	99.53
Transfers out	371	390	389	99.74
Retirements	294	321	320	99.68
Deaths	205	211	211	100.00
Deferred	595	773	773	100.00
Refunds	49	52	51	98.07
Employer estimates	748	748	748	100.00
Individual Estimates	275	273	270	98.90
Other contractual	3985	4171	4171	99.35
<b>Total</b>	<b>7731</b>	<b>8234</b>	<b>8226</b>	<b>99.5</b>

Number completed includes those received from previous years.

### Indicator: Complaints and Internal Dispute Resolution

The City of Westminster as Administering Authority make decisions under pension fund rules that affect members and their dependents. In the event that fund members are not satisfied with a decision, they reserve the right to use the complaints procedure known as the Internal Dispute Resolution Procedure (IDRP). While any complaint is progressing, fund members are entitled to contact the Occupational Pensions Advisory Service (OPAS), 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 the event that the fund member is not satisfied with actions taken at Stage 1 the complaint will progress to Stage 2.

Stage 2 involves the referral to the administering authority, Westminster City Council to take an independent view. The final Stage 3 is the referral of the complaint to the Occupational Pensions Advisory Service, followed by Stage four which is the referral to the Pension Ombudsman.

Twelve complaints (0.15% of the workload) were received in 2010 -2011. They can be summarised as issues related to:

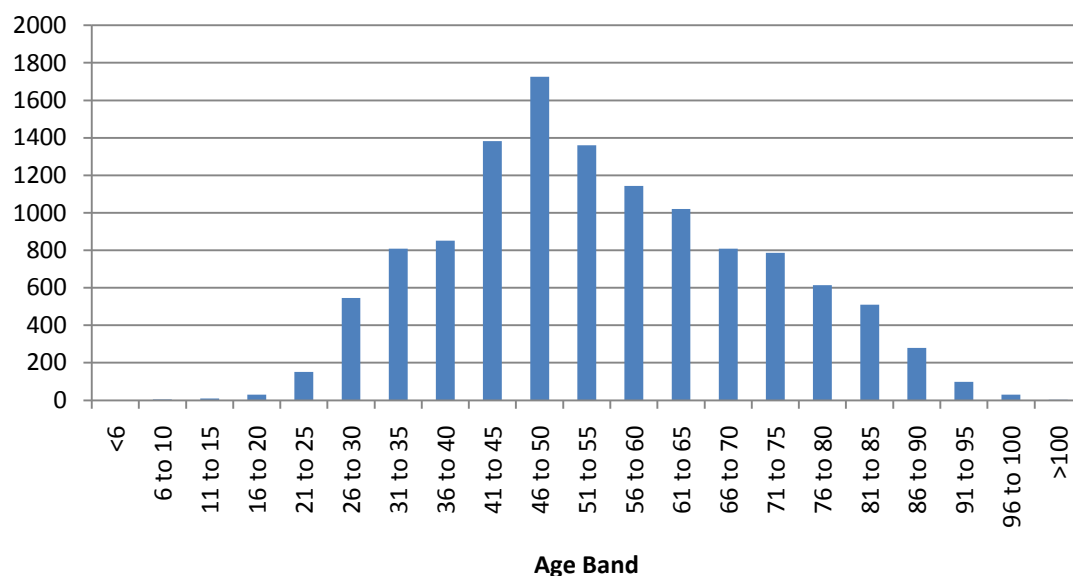
- Pay used
- AVC fund used
- Level of compensation paid
- Re-employment of staff
- Guaranteed Minimum Pension

All these complaints were resolved, with four finalised at IDRP Stage 1 and two finalised at IDRP stage 2.

### Fund Membership

Across all member types (active, deferred and pensioners) the age band 46-50 is the peak membership age followed by members aged 51 -55 and 41-45. The fund had 2 members aged 101 – 105. The graph below shows membership and receiving dependents by age band (as at March 2011).

## Membership and Receiving Dependents by Age Band (March 2011)



### **Pensioners in receipt of enhanced retirement benefits**

Analysis of LPFA management information shows that out of 4,989 pensioners and dependants 241 are in receipt of added years due to either ill health or redundancy/early retirement.

### **Employers Contributions**

The certified employer contribution rates to the Fund were set by the actuary in 2010. The contribution rates differ for each employer since the rate is unique to each employer's particular circumstance. The triennial review of the fund at the 31 March 2010 anticipated the required contribution rates for each of the years to 2013.

Employer contribution rates (% of pensionable pay)				
Employer	y/e	Year commencing 1 April		
	31 March	2011	2012	2013
<b>Scheduled Bodies</b>				
Westminster City Council	16.0	16.0	16.5	17.0
Paddington Academy	10.8	10.8	10.8	10.8
Westminster Academy	13.1	10.3	10.3	10.3
King Solomon Academy	16.0	6.9	6.9	6.9
Pimlico Academy	16.6	9.3	9.3	9.3
<b>Admission Bodies</b>				
Age Concern	19.2	26.3	26.3	26.3
Independent Housing Ombudsman (IHOL)	18.6	22.5	22.5	22.5
Housing 21 (original contract)	18.9	24.4	24.4	24.4
City West Homes Limited	14.5	10.8	10.8	10.8
Homes & Communities Agency (HCA)	10.0	10.0	10.0	10.0
Tenants Services Authority (TSA)	10.6	10.6	10.6	10.6
Housing 21 (Day Care Service)	19.7	22.4	22.4	22.4
Ramesys	17.9	23.4	23.4	23.4

Participating employers in 2010 -2011 can be divided into Scheduled Bodies and Admission Bodies.

### **Scheduled Bodies**

Westminster Employers:

- Westminster City Council
- St Marylebone School
- St Augustine School
- College Park School
- Greycoat School
- Hallfields School
- Quinton Kynaston School
- Westminster City School
- Soho Parish
- Edward Wilson J M I School
- Essendine Primary School
- George Elliott School
- LG Burdett Coutts C E Primary School
- Paddington Green J M I School
- Portman Early Childhood Centre
- Queen's Park Primary School
- Robinsfield Infants School
- St Barnabas C E School
- St Gabriel's C E School
- St Mary Bryanston Square
- St Mary Magdalene C E School
- St Matthew's C E School
- St Peter's C E School (W9)

- Paddington Academy
- Westminster Academy
- King Solomon Academy
- Pimlico Academy

## Admission Bodies

Age Concern  
City West Homes  
Independent Housing Ombudsman  
Tenants Services Authority  
Housing 21  
Housing 21 Scheme 2  
Homes and Communities Agency

The table below details the normal contributions receivable in 2010-2011 for employers and employees.

Normal contributions	Employers	Employees
	£'000s	£'000s
Scheduled Bodies:		
Westminster Employers	14,196	6,088
Other	502	233
<b>Sub-Total</b>	<b>14,698</b>	<b>6,321</b>
Admission Bodies	3,528	1,963
<b>Total</b>	<b>18,226</b>	<b>8,284</b>

Normal contributions are payable at the certified rate above. Strain contributions are payable by employers where members retire earlier than their retirement date. Deficit contributions are payable where the actuary has agreed with an employer a deficit recovery plan. The added years contributions represent purchases of added years or additional benefits under the scheme.

Deficit contributions totalling £4.2m were received from two bodies. Added years totalling £241,000 were bought by four bodies, including Westminster City Council that was also the only employer to make additional (£50,000) and strain (£1.4m) contributions. More detailed information can be found in the Statement of Accounts 2010-11 that is available on request or from the Councils website at

[www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/)

## Receipt of Contributions

Some contributions due from employers were received outside the deadlines stipulated by the Regulations. The Council has taken the decision to waive the option to levy interest on overdue contributions.<sup>1</sup>

## Employee Contributions

Employee contribution rates as set by regulations are dependent upon each member's full time equivalent salary. The bandings and number of members which relate to each of these for the year beginning 1 April 2011 is shown below. More information on banding is available on [www.timeline.lge.gov](http://www.timeline.lge.gov).

<sup>1</sup> Regulation 42(2) Local Government Pension Scheme (Administration) Regulations 2008

Pay Range	Contribution Rate	No of employees by rate
£0 to £12,900	5.5%	68
£12,901 to £15,100	5.8%	156
£15,101 to £19,400	5.9%	596
£19,401 to £32,400	6.5%	1215
£32,401 to £43,300	6.8%	865
£43,301 to £81,100	7.2%	652
Greater than £81,100	7.5%	63

Data reflects the position at the time this report has been produced.

In 2010-11, normal employee contributions totalling £8.3m was paid to the fund. An additional contribution of £50,000 was paid by employees of Westminster City Council only.

## Budgeted Income and Expenditure Account - Fund Cash flow

Estimate 31 March 2012 & Actual for years ended 2010-11 & 2009-10

	2012 (E) £ m	2011 (A) £ m	2010 (A) £ m
<b>Expenditure</b>			
1. Pension (or annuities): retired employees and dependants	27	29	27
2. Lump sums: on retirement (including deferred)	8	8	10
2(a) Optional lump sums, for retirements on or after 1 April 2009	0	0	0
3. Lump sums: on death	1	1	1
5. Transfer values (including apportionments)	7	9	6
6. Pensions Act premiums (less recoveries from employees included in row 5)	0	0	0
7. Administration and fund management costs of the fund	4	4	5
8. Other expenditure	0	0	0
<b>9. Total expenditure (sum of rows 1 to 8)</b>	<b>47</b>	<b>51</b>	<b>49</b>
	2012	2011	2010
<b>Income</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
	<b>(E)</b>	<b>(A)</b>	<b>(A)</b>
10. Contributions (including those from other employing authorities): employees	9	9	9
11. Contributions (including those from other employing authorities): employers	25	24	29
12. Investment income	7	14	17
13. Transfer values (including apportionments)	7	5	11
14. Other income	0	0	0
<b>15. Total income (sum of rows 10 to 14)</b>	<b>48</b>	<b>52</b>	<b>66</b>
<b>Net inflow / (outflow)</b>	<b>1</b>	<b>1</b>	<b>17</b>

### Commentary

In 2010-11 the Fund experienced a reduction of 17% in contributions received from Employers, mainly because strains were not as high as last year. There was also a significant reduction in the requests for transfers into the Fund, largely reflecting the low levels of recruitment over the past two years. Lump sums on retirement remained elevated despite the pension changes in 2008 that improved the accrual rate but removed the automatic option of a lump-sum on retirement, reflecting the Council's public services transformation programme.

Financial markets did not reproduce the stellar performance of last year, but nevertheless gained across the main asset classes of equities and fixed income. As a result, the capital growth of the Fund was positive on the year. Investment income however fell by 17%, about half the rate of last year, reflecting in large part the fall in general market interest rates and thus lower income yielding reinvestment opportunities.

# Income and Expenditure Account Variance analysis 2010-2011

## Budgeted & Actual Results for years ended 2010-11

	Actual	Budget
<b>Expenditure</b>	<b>£ m</b>	<b>£ m</b>
1. Pension (or annuities): retired employees and dependants	29	29
2. Lump sums: on retirement (including deferred)	8	10
2(a) Optional lump sums, for retirements on or after 1 April 2009	0	0
3. Lump sums: on death	1	1
5. Transfer values (including apportionments)	9	7
6. Pensions Act premiums (less recoveries from employees included in row 5)	0	0
7. Administration and fund management costs of the fund	4	6
8. Other expenditure	0	0
<b>9. Total expenditure (sum of rows 1 to 8)</b>	<b>51</b>	<b>53</b>

	Actual	Budget
<b>Income</b>	<b>£ m</b>	<b>£ m</b>
10. Contributions (including those from other employing authorities): employees	9	9
11. Contributions (including those from other employing authorities): employers	24	29
12. Investment income	14	17
13. Transfer values (including apportionments)	5	11
14. Other income	0	0
<b>15. Total income (sum of rows 10 to 14)</b>	<b>52</b>	<b>66</b>

### Commentary

Market interest rates fell more than expected and as a result investment income came in less than that budgeted. Transfer outs were higher than budgeted, in large part due to the lagged impact of previous regulatory changes.

# Administrative & Fund Management Costs 2010-2011

## Budgeted & Actual Results for years ended 2010-11

### Administration and fund management costs of the fund during 2010/11

	£ 000	£ 000
1. Administration costs (excluding fund management costs ) charged to the fund		
a. Central recharge from General Fund	903	898
b. Actuary costs	76	52
c. Legal recharge and other professional fees	13	31
d. LPFA invoicing	234	280
	1,226	1,260
2. Fund management costs charged to the fund	2,961	3,765
<b>3. Total costs charged to the fund (including fund management costs)</b>	<b>4,187</b>	<b>5,025</b>

### Commentary

Results for administrative costs against forecast were 17% lower than predicted. The biggest contributor was the fall in Fund management costs, reflecting not only lower performance fees as funds were reallocated from equities into property during the year, but the impact of a change in the mix of managers responsible for the Fund. And while Actuarial costs increased, in part driven by additional work as a result of the Councils public services transformation programme, LPFA costs fell, reflecting cost savings associated with the way it communicates with employees and employers.

## GLOSSARY

**Active Members:** These are current employees who are contributing (or have contributions made on their behalf) to an organisation's occupational pension scheme. They are distinct from deferred members and pensioners.

**Actuarial valuation:** A report of the financial position of a DB pension scheme carried out by an actuary every three or four years. The report typically sets out the scheme's assets and liabilities as at the date of the valuation; the rate at which the sponsoring employer must contribute to meet the liabilities accruing as they become due; and the additional rate at which the employer must contribute to eradicate any deficit (the excess of liabilities over assets) within a stated time period.

**Additional Benefits:** These are benefits in addition to the pension under a scheme that Active Members may purchase to add to the pension ("added pension"), the years of pensionable service ("added years"), or for a separate money purchase pension ("additional voluntary contributions").

**Additional Voluntary Contribution (AVC):** These are personal pension contributions made by someone who is also a member of an occupational scheme as a top-up to their occupational entitlement. AVCs can be made into the occupational scheme or to a stand-alone product called a Freestanding AVC plan.

**Admitted Body (Status):** An admitted body refers to an organisation (or body) that has become (or been admitted) a member of the Local Government Pension Scheme other than as a result its founding statute. Admitted bodies have no automatic right to membership under the legislation. It enables contractors, who take on an authority's services or functions with employees transferring from the authority, to offer the transferring staff continued eligibility of the transferring authority's pension scheme.

**Consumer Prices Index (CPI):** It is an internationally comparable measure of inflation based on structures in international legislation and guidelines and launched in 1996. Like the Retail Prices Index (RPI) it tracks the changing cost of a fixed basket of goods and services over time. However unlike the RPI it disregards some items, such as housing costs. It also has a different population base for the indices from the RPI and a different way in which the index is calculated.

**Current contribution rate:** The standard contribution rate as adjusted for past surpluses and deficits and payable by employers and employees

**Deferred Members:** Deferred members are scheme members who have left employment, or ceased to be an active member of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

**Defined Benefit (DB) Pension Scheme:** A pension scheme where the pension is related to the members' salary or some other value fixed in advance.

**Dependent Member:** An individual who is eligible to receive retirement benefits following the death of a scheme member.

**Employee Contribution Rates:** The percentage of their pensionable salary that employees pay as a contribution towards a pension.

**Employer Contribution Rates:** The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

**Funded:** Pension schemes in which pension contributions are paid into a fund that is invested and pensions are paid out of this pot.

**In-Specie:** A phrase describing the distribution of an asset in its present form, rather than selling it and distributing the cash. In specie distribution is made when cash is not readily available, or allocating the physical asset is the better alternative.

**Longevity:** The length or duration of human life.

**Member contributions:** The amounts paid by active scheme members into their pension schemes.

**Pensioner Member:** Individuals who now draw a pension and who are mainly former employees. However they may also include widows, widowers and other dependants of former active members.

**Retail Prices Index (RPI):** It is a measure of inflation and like the Consumer Prices Index (CPI) it tracks the changing cost of a fixed basket of goods and services over time. However, unlike the CPI it takes into account items such as housing costs. It also has a different population base for the indices from the CPI and a different way in which the index is calculated.

**Scheduled Body:** This is an organisation (or body) that has the right to become a member of the Local Government Pension Scheme under the legislation. Such a body does not, therefore, require to be admitted as its right to membership is automatic.

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# Appendix A

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY OF WESTMINSTER COUNCIL**

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of City of Westminster Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Chief Operating Officer and auditor**

As explained more fully in the Statement of the Chief Operating Officer's Responsibilities, the Chief Operating Officer is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Michael Haworth-Maden  
District Auditor

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30 November 2011