



WANDSWORTH BOROUGH COUNCIL

PENSION FUND ANNUAL REPORT (Pages 3 - 128)
2014/2015

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WANDSWORTH BOROUGH COUNCIL PENSION FUND**PENSION FUND ANNUAL REPORT 2014/15****Introduction**

Welcome to the eighth annual report of the Wandsworth Council Pension Fund. The content and detail within the report is largely prescribed by legislation under the Local Government Pension Scheme Regulations 2013. The report complies with those regulations. The publication of this report gives the Council the opportunity to demonstrate the standard of governance and supervision of the fund. It also brings together a number of separate reporting strands into one comprehensive document that enables both the public and employees to see how the fund is managed and how it is performing. It is in the interest of both employees and the public that the fund is well managed and shows high returns to provide value for money for both employer and employee.

The report has been structured to reflect legislative requirements and guidance issued by the Department of Communities and Local Government and the data therein is accurate as at 31 March 2015.

Equity prices picked up steadily over the year as the outlook for advanced economies improved and investors' risk appetite began to return. The majority of the gain in the fund was due to investments in overseas equities. Overall, the Pension Fund has again had superior performance placing investment returns in the top quartile of all local government pension funds over the last one, three and five years. Over the past five years the fund has returned 10.8% per annum, some 2.1% per annum better than the average local government fund. These results assist in maintaining the long-term value of the fund and thus to reduce future calls on the Council tax payer.

Further information about the Local Government Pension Scheme can be found at <http://www.wandsworth.gov.uk/pensions>

The results of the actuarial valuation of the Pension Fund as at 31 March 2013 revealed that the Pension Fund was 95% funded, up from 91% in 2010 with a deficit of £55 million, down from £75 million in 2010. The common rate of employer contribution for future service was 16% of pensionable pay and the rate of employer contribution to pay for the deficit was 3% payable over 17 years, down from 20 years in 2010. Employers' individual contribution rates from this process were implemented from 1 April 2014. The next actuarial valuation of the Pension Fund is due as at 31 March 2016, with any changes to employer contribution rates due to be implemented from 1 April 2017.

The Pension Fund has joined forces with Camden, Merton and Richmond's Pension funds to provide a shared pensions administration service. This is expected to produce increases in resilience and savings to all boroughs in the years to come. One other borough is expected to join in 2015/16, with more expressing an interest for future years.

The Council places responsibility for the Pension Fund under the Pensions Committee.

Chris Buss
Director of Finance

Councillor Maurice Heaster
Chairman of Pensions Committee

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SECTION 1 - MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

Under Regulation 57 of the Local Government Pension Scheme Regulations 2013, the Council is required to provide a Management and Financial Performance Report. Guidance from Communities and Local Government (CLG) states that the report contains details of scheme management and advisors including contact details. The following details are for the year to 31 March 2015.

Fund Management and Advisers

Under the Council's constitution the Pensions Committee has overall responsibility for pension fund matters.

Membership of the Pensions Committee during the year was follows:

Pensions Committee (All members have full voting rights)

Councillor Maurice Heaster – Chairman
Councillor Guy Senior – Deputy Chairman
Councillor Mrs Kim Caddy *(to May 2014)*
Councillor James Daley – Member (Opposition Speaker)
Councillor Mark Davies *(to May 2014)*
Councillor Russell King *(to May 2014)*
Councillor Peter Carpenter *(from May 2014)*
Councillor Melanie Hampton *(from May 2014)*
Councillor Rory O'Broin *(from May 2014)*

All Councillors may be contacted at the Town Hall, Wandsworth High Street, London, SW18 2PU or alternatively using individual contact addresses which are available at <http://www.wandsworth.gov.uk/yourcouncillors>.

Voting records and attendance records for each meeting of the Pensions Committee are available at

<https://democracy.wandsworth.gov.uk/ieListMeetings.aspx?CId=502&Year=0>

The Director of Finance and Assistant Director of Finance (Pensions and Payments) provided access to a Knowledge and Skills toolkit for the new members of the Committee and delivered one to one training covering the Pensions Committee remit. The Committee members also received material from Mercer that expanded investment knowledge in alternative credit, infrastructure debt, natural resources, real estate and multi-asset credit.

Investment Managers

| Manager | Mandate |
|---------------------------|-------------------------|
| Union Bank of Switzerland | Passive Tracker |
| River & Mercantile | Managed UK Equities |
| Baillie Gifford | Managed Global Equities |
| Longview | Managed Global Equities |
| Allianz | Managed Global Equities |
| Rogge | Managed Enhanced Bonds |
| Rreef | Managed Property |

Investment Advisor

Mercer

Custodian

Northern Trust

AVC Providers

Prudential

Fund Actuary

Barnett Waddingham

Legal Advisors

Sharpe Pritchard

Auditor

PricewaterhouseCoopers LLP

Bankers

National Westminster Bank Plc

Wandsworth Council

Responsible Financial Officer

Assistant Director of Finance (Pensions and Payments)

Scheme Administration - Head of Pensions Shared Service

Scheme Investments and Accounting - Pension Fund Controller

Chris Buss

Robert Claxton

Colette Hollands

Peter Harris

In the first instance contact to any of the above should be made via Peter Harris, Pension Fund Controller by telephoning (020) 8871 8887 or by email to peterharris@wandsworth.gov.uk

Risk Management

The roles of the external fund managers and custodian who are responsible for the management and safekeeping respectively of the Pension Fund assets are clearly set out in the Statement of Investment Principles (SIP) (Section 8) with commentary on how investment risk is diversified and managed. The roles of the fund investment advisor and the fund actuary are also clearly specified in this document. All of the above have legally binding contracts and are subject to regular review and competitive tendering according to legislation and the Council's procurement rules.

The Funding Strategy Statement (FSS) (Section 7) explains the Fund's key risks and how they are identified, mitigated, managed and reviewed.

The Council's overall strategy on risk management is contained within Paper No. 14-475 to the Audit Committee on 24 September 2014. The Council maintains the Pension Fund to meet the pension guarantee and fund the pension benefits as defined by legislation passed by Parliament. Whilst there is no integrated section of this report dedicated to the Pension Fund, the whole report underpins the Council's approach to Pension Fund Risk Management and risk and governance structure is integrated within.

The Council is the primary employer in the Pension Fund and risks of late contributions are therefore mainly with schools who are treated by the Pension Regulations as part of the Council for pension purposes and a small number of admitted bodies. Contributions from external payroll providers are reconciled monthly against contributions expected and cash received and these contributions are reported within the pension fund's account. The fund account, net assets statements and notes to the accounts are audited externally each year.

The investment managers and the custodian are audited separately at different times by audit firms over whom the Council has no control over. The Council receives control reports from investment managers and the custodian that provide some level of assurance from their independent accountants.

Investment advice is received from Mercer. Officers and Mercer meet and review fund manager performance and activity at least quarterly. The Pensions Committee meet at least quarterly and details of these meetings are provided in Section 5.

Financial Performance

The Financial Performance of the Pension Fund is reported in this section. It comprises income and expenditure against budget and details of employee and employer contributions.

Income and Expenditure against Budget

An analysis of additions and withdrawals from dealing with Fund members is provided below. The table compares movements with 2013/14 and with forecasts giving reasons for any significant variances from forecast by cashflow heading.

Budgets and forecasts are not used for changes in market value as this is outside the control of the committee and can be volatile. The income received is re-invested in the fund by managers together with any asset sale proceeds. Details of the assets of the fund are available in Section 6.

| Dealings with Scheme Members | 2013/14 | 2014/15 | 2014/15 | 2014/15 | |
|---------------------------------|----------|----------|----------|------------------------|-------|
| | Actual | Budget | Actual | Variance from Forecast | |
| | £'000 | £'000 | £'000 | % change | £'000 |
| Contributions receivable | | | | | |
| - Members | 8,147 | 8,523 | 8,537 | 0 | 14 |
| - Employers | 24,262 | 24,818 | 25,106 | 1 | 288 |
| - Transfers in | 3,114 | 1,443 | 1,424 | (1) | (19) |
| TOTAL INCOME | 35,523 | 34,784 | 35,067 | 1 | 283 |
| Benefits/Expenses | | | | | |
| - Pensions | (33,263) | (35,820) | (35,892) | 0 | (72) |
| - Retirement lump sums | (8,704) | (12,478) | (11,466) | 8 | 1,012 |
| - Death lump sums | (848) | (1,513) | (1,181) | 22 | 332 |
| - Transfers out | (1,933) | (1,001) | (838) | 16 | 163 |
| - Central Recharge | (646) | (659) | (676) | (3) | (17) |
| Other administration expenses | (76) | (70) | (71) | (1) | (1) |
| TOTAL EXPENDITURE | (45,470) | (51,541) | (50,124) | 3 | 1,417 |
| Balance | (9,947) | (16,757) | (15,057) | 10 | 1,700 |

The table shows that in 2014/15 (as in 2013/14) there were net withdrawals from dealing with members.

A favourable impact on cashflow when compared to budget resulted from;

- Employer's contributions 1% above forecast,
- Retirement Lump Sums 8% below forecast,
- Death Lump Sums 22% below forecast,
- Transfers out 16% below forecast.

The biggest impact came from retirement lump sums which were lower because fewer fund members retired than forecast. The LGPS Regulations give retirees flexibility to voluntarily retire from age 60 and some flexibility to give up annual pension in return for a higher lump sum. Accordingly, forecasting the exact number of retirees and the amounts of lump sum is difficult.

There was no significant unfavourable impact on cashflow when compared to budget.

Investment management expenses are shown in the table below along with a forecast of the Pension Fund budget agreed by the Pensions Committee in Paper No. 15-50 on 2 February 2015 for the next 3 years. It should be noted that the employees and employers contributions are based on fund membership at 31 March 2015 and do not allow for any reduction in staffing levels over the forthcoming years or any change in employees or employers contributions from future reforms of the LGPS.

| Pension Fund Budget | 2015-16 | 2016-17 | 2017-18 |
|--|-----------------|-----------------|-----------------|
| | £'000 | £'000 | £'000 |
| Contributions Receivable | | | |
| Members | 8,693 | 8,867 | 9,045 |
| Employers Normal | 24,007 | 24,487 | 24,977 |
| Employers Additional | 1,308 | 1,334 | 1,360 |
| Transfers In | 1,443 | 1,443 | 1,443 |
| Benefits Payable | | | |
| Pensions | (26,924) | (28,809) | (30,826) |
| Pensions Increases | (11,373) | (12,139) | (12,958) |
| Retirement Benefit Lump Sums | (12,728) | (12,982) | (13,242) |
| Death Benefits | (788) | (788) | (788) |
| Transfers Out | (1,001) | (1,001) | (1,001) |
| Establishment | (672) | (686) | (699) |
| Net (Withdrawals) from Dealing with Members | (18,035) | (20,274) | (22,689) |
| Returns on Investments | | | |
| Investment Income | 23,223 | 24,384 | 25,603 |
| Investment Management Expenses | (2,638) | (2,510) | (2,676) |
| Custody | (70) | (70) | (70) |
| Investment Consultancy | (75) | (75) | (75) |
| Total | 2,405 | 1,455 | 93 |

Contribution Amounts due to the Fund from Employers

The following table provides details of the total amounts due and remitted for the period 2014/2015 for employers, basic and additional members' contributions.

| <u>Employer</u> | <u>Establishment</u> | <u>Total Contributions Received £000's</u> |
|--|-----------------------------|--|
| Wandsworth Council | | |
| (In-House Payroll) | Wandsworth Council | 30,437 |
| (Schools with External Payroll Providers) | Albemarle School | 76 |
| | Honeywell Infant School | 78 |
| | Honeywell Junior School | 61 |
| | St Cecilia's C of E School | 198 |
| | St George's School | 3 |
| Scheduled Bodies | | |
| | Ashcroft Technology College | 264 |
| | Belleville School | 183 |
| | Bolingbroke ARK | 87 |
| | Burntwood Academy | 274 |
| | Chestnut Grove | 304 |
| | Graveney School | 438 |
| Academy 1/09/14 | Griffin School | 29 |
| Academy 1/09/14 | Harris Academy Battersea | 97 |
| | Mosaic SLJPS | 22 |
| | Putney ARK | 133 |
| | Rutherford House School | 33 |
| | Southfields Academy | 337 |
| Academy 1/03/15 | St Cecilia's C of E School | 21 |
| | Tooting Primary School | 20 |
| Academy 1/04/14 | Westbridge Primary School | 42 |
| Admitted Bodies | | |
| | Civica ICT Burntwood | 7 |
| | Civica ICT Southfields | 2 |
| | Greenwich Leisure Ltd | 486 |
| | Spurgeons | 11 |
| Total Contributions Remitted | | 33,643 |

The Director of Finance is authorised to decide whether to levy interest in any case where contributions are received late. There was one instance where contributions of £3,192 due in August 2014 were received late due to an administrative error by a school when changing payroll provider. These contributions were received on 5 December 2014. There was also one instance where contributions of £17,090 due

from a school were credited to the Council's bank account rather than the pension fund's account. This was corrected the following month. No interest was levied in these instances. Included in the above are contributions of £1,547,415 in respect of early retirements. Further detail is available in Section 4.

Management of Admitted Bodies and Funding arrangements

No new admission agreements were entered in to during the reporting year. The table below gives a breakdown of the type of employer within the Fund and whether the employer is active (employs active members) or ceased (no active members but with some outstanding pension liability).

| | Active | Ceased | Total |
|----------------|--------|--------|-------|
| Scheduled body | 16 | 2 | 18 |
| Admitted body | 4 | 10 | 14 |
| Total | 20 | 12 | 32 |

The number of scheduled bodies includes the Council. One employer had active members during the year but none at the year end so there were 19 active employers at the end of the year.

Pension Overpayments and National Fraud Initiative Results

Invoices raised for overpaid pensions during the year and payments written off are given below. The Council does not recover overpaid pensions where these are less than £25. Information for previous years is not available however; information will be built up over the next five years.

| Year | 2014/15 |
|-----------------|---------|
| Invoices raised | £15,527 |
| Written-off | £215 |

Details of the last two National Fraud Initiatives (2012 and 2014) are at Appendix 1.

Administrative Costs

Costs such as staff, premises and IT are charged by the Council and are allocated to the fund as part of its share of the Council's overall costs and a breakdown is provided below. These costs are further identified and benchmarked against similar costs of other authorities and monitored by the CLG via statutory annual returns. Costs consist of direct costs of staff employed on administering the Pension Fund together with an apportionment of overheads, such as office accommodation.

The pension fund net asset statement, fund account and notes to the accounts are audited by PricewaterhouseCoopers LLP (PwC). PwC's full report is contained in the Council's statement of accounts and a report to the Council on the Pension Fund is also contained in this report. The auditor is Government appointed.

The expenditure detail shown below is comprised of expenditure from administration of benefits, administration of investments and costs associated to other officers involved in the management of the fund. A more detailed breakdown of the recharge to the Pension Fund and audit fee costs is given below.

| Year | Pension Staff & Premises Costs £000's | Investments Section Staff & Premises Costs £000's | Finance Directorate IT & Democracy £000's | Audit Fee £000's | Legal Fees £000's | Redundancy Costs £000's | Total Charge £000's |
|---------|--|--|--|---------------------|----------------------|----------------------------|------------------------|
| 2013/14 | 441 | 140 | 65 | 18 | - | - | 664 |
| 2014/15 | 433 | 142 | 65 | 24 | 5 | 31 | 700 |

The figures shown above for the Investment Section reflect the full cost of the Investment Section. The details of the full costs of the Pensions Service for 2014/15 including those costs which are not chargeable to the Pensions Fund are shown below.

| 2014/15 | | | | |
|--|--------------------------------|-------------------------------|-----------------------|-------------------------|
| | Original Budget £'s | Revised Budget £'s | Actual £'s | Variance £'s |
| Staffing Costs | 839,390 | 846,300 | 912,748 | 66,448 |
| Central and Technical Support | 347,010 | 351,640 | 354,415 | 2,775 |
| Other Supplies and Services | 107,980 | 102,010 | 160,353 | 58,343 |
| Costs recovered from Shared Service partners | -497,650 | -497,650 | -533,401 | -35,751 |
| Other external income | 0 | 0 | -17,980 | -17,980 |
| Net expenditure | 796,730 | 802,300 | 876,135 | 73,835 |
| Charge to Council - Employer Duties | 363,500 | 369,070 | 411,905 | 42,835 |
| Charge to Pension Fund | 433,230 | 433,230 | 464,230 | 31,000 |

The expenditure includes the costs associated with the Council performing its functions as an employer for the purposes of the Local Government Pension Scheme Regulations. Work carried out as an employer as well as that for Teachers' Pensions, cannot be charged to the Pension Fund. The expenditure shown above also includes the increase in budget for the Camden, Merton and Wandsworth Pensions Shared Service, Merton having now been part of the Shared Service for the whole year. Employee costs were higher than budget due to the taking on of temporary staff to cover increased work and staff vacancies.

The charge to the Wandsworth Pension Fund for the administration of the Wandsworth fund for the year 2014/15 was £464,230 (including the redundancy costs above) (£440,975 for 2013/14). The costs chargeable to the fund and to the Council as an employer are reviewed annually.

Further detail of the actual expenditure for 2014/15 is given in the table below.

| 2014/15 | | |
|-----------------------------|---------------------------|-----------------------|
| Expenditure | Description | Totals £'s |
| Staffing | Salaries | 657,392 |
| | National Insurance | 51,611 |
| | Employer Pension | 118,340 |
| | Redundancy Costs | 82,654 |
| | Training/Advertising | 2,751 |
| Central & Technical Support | Office Accommodation | 21,620 |
| | Payroll | 170,338 |
| | Central IT | 11,750 |
| | Finance Dept Overheads | 150,707 |
| Other Supplies & Services | Printing/Stationery | 15,840 |
| | Postage | 7,428 |
| | IT & Telecoms | 130,526 |
| | Legal & Contracts | 2,464 |
| | General (fares/equipment) | 4,095 |
| Total Expenditure | | 1,427,516 |

Management Expenses

The Pension Fund paid £3.862 Million in management expenses in 2014/15. Management expenses comprise investment management fees and fund administration expenses. This was an increase of £0.49 Million (14.5%) compared with 2013/14. When compared to budget there was an adverse variance of £0.63 Million (19.7%).

Longview received a performance fee of £603,105 due to outperformance of their target. In addition, investment consultancy fees were higher than anticipated due to work on the proposed new investment in multi asset credit funds.

Below is a breakdown of the fund management expenses for 2014/15 showing variance from the budget in both percentage and monetary terms.

| Type of Fee | 2013/14 Actual £000's | 2014/15 Budget £000's | 2014/15 Actual £000's | 2014/15 Variance compared to budget % | £000's |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--|---------------|
| <u>Investment Management</u> | | | | | |
| Aberdeen Asset Management | 10 | 10 | 10 | 0 | 0 |
| UBSGAM Balanced | 215 | - | - | - | - |
| UBSGAM Passive | 63 | 100 | 78 | 22 | 22 |
| River and Mercantile | 415 | 220 | 220 | 0 | 0 |
| Longview | 926 | 740 | 1,336 | (81) | (596) |
| Allianz | 347 | 380 | 384 | (1) | (4) |
| Rogge | 221 | 280 | 284 | (1) | (4) |
| Property | 10 | 10 | 10 | 0 | 0 |
| Baillie Gifford | 305 | 697 | 620 | 11 | 77 |
| | 2,512 | 2,437 | 2,942 | (21) | (505) |
| <u>Custody</u> | | | | | |
| Northern Trust | 66 | 70 | 79 | (13) | (9) |
| | 66 | 70 | 79 | (13) | (9) |
| <u>Performance Measurement & Consultancy</u> | | | | | |
| Actuary W.M.Co. | 19 | 18 | 11 | 39 | 7 |
| (Measurement) | 12 | 12 | 15 | (25) | (3) |
| Mercer Consulting | 62 | 40 | 79 | (98) | (39) |
| Miscellaneous (membership fees, etc.) | 39 | 5 | 36 | (600) | (31) |
| | 132 | 75 | 141 | (87) | (66) |
| Total | 2,710 | 2,582 | 3,162 | (22) | (580) |
| Administration Costs | 664 | 646 | 700 | (9) | (55) |
| Grand Total | 3,374 | 3,228 | 3,862 | (20) | (634) |

Unit costs per member including investment management

| | 2014/5 | 2013/14 |
|--|---------------|----------------|
| Pension Staff & Premises Costs (exc Audit Fee) | £464,230 | £440,975 |
| Management Costs (inc Audit Fee) | £3,398,618 | £3,372,721 |
| Total | £3,862,848 | £3,813,696 |
| Membership | 19,141 | 17,700 |
| Cost per member | £201.81 | £215.46 |

Management Performance**Performance Indicators**

To ensure that the Council's Pensions Service has a method of testing it against other public sector pension services, the Service participates in the CIPFA Pensions Administration Benchmarking Club. The latest available data is for the year 2013/2014. The club had 49 member authorities who submitted data for the year (down from 52 members in the previous year). Eight (including Wandsworth) of these were London Boroughs.

The club members measure performance against agreed performance indicators (PIs) for specific items of work.

Table 1 – 2013/2014 – Comparison to London Boroughs

| Industry Standard PI's | Target | Wandsworth | Average London Authorities |
|---|---------------|-------------------|-----------------------------------|
| Letter detailing transfer in quote | 10 days | 73.0% | 83.2% |
| Letter detailing transfer out quote | 10 days | 94.4% | 88.9% |
| Process refund and issue payment voucher | 5 days | 98.7% | 88.3% |
| Letter notifying estimate of retirement benefit | 10 days | 100.0% | 95.3% |
| Letter notifying actual retirement benefit | 5 days | 99.8% | 95.7% |
| Letter acknowledging death of member | 5 days | 100.0% | 85.4% |
| Letter notifying amount of dependant's benefits | 5 days | 100.0% | 89.0% |
| Calculate and notify deferred benefits | 10 days | 98.7% | 60.5% |

Table 2 - 2013/2014 – Comparison to all club members

| Industry Standard PI's | Target | Wandsworth | Average All Club Authorities |
|---|---------------|-------------------|-------------------------------------|
| Letter detailing transfer in quote | 10 days | 73.0% | 89.5% |
| Letter detailing transfer out quote | 10 days | 94.4% | 92.1% |
| Process refund and issue payment voucher | 5 days | 98.7% | 87.1% |
| Letter notifying estimate of retirement benefit | 10 days | 100.0% | 90.8% |
| Letter notifying actual retirement benefit | 5 days | 99.8% | 92.5% |
| Letter acknowledging death of member | 5 days | 100.0% | 90.9% |
| Letter notifying amount of dependant's benefits | 5 days | 100.0% | 91.3% |
| Calculate and notify deferred benefits | 10 days | 98.7% | 76.4% |

Customer Satisfaction Levels

Quality questionnaires are sent with every completed case together with a suggestion slip for members to suggest areas where they feel quality could be improved. The table below gives the percentage ratings of member satisfaction levels for the last 5 years.

| | 10/11 | 11/12 | 12/13 | 13/14 | 14/15 |
|---------------------------------|-------|-------|-------|-------|-------|
| Very Satisfied | 71% | 80% | 80% | 79% | 79% |
| Satisfied | 24% | 17% | 14% | 15% | 15% |
| Satisfied after further enquiry | 4% | 3% | 5% | 5% | 6% |
| Not satisfied | 1% | 0% | 1% | 1% | 0% |

Complaints Received

The Service uses the Council's Suggestions and Complaints procedure. Complaints received in the last 5 years are shown in the table below.

| Type of Complaint | 10/11 | 11/12 | 12/13 | 13/14 | 14/15 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| System Error | 0 | 0 | 0 | 0 | 0 |
| Staff Error | 0 | 2 | 1 | 0 | 0 |
| Staff Attitude | 0 | 0 | 0 | 0 | 0 |
| Beyond Service Delivery Standards | 0 | 0 | 1 | 0 | 0 |
| Policy/Service Delivery changes | 0 | 0 | 0 | 0 | 0 |
| Not the Lead Authority | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 2 | 2 | 0 | 0 |
| Total as % of Workload | 0.00% | 0.08% | 0.05% | 0.00% | 0.00% |

Staffing Indicators

Wandsworth Council's Pensions Service comprises ten staff working in three distinct areas dealing with the administration of the fund along with employer responsibilities for the Teachers' Pension Scheme and the London Pension Fund Authority. In addition, 2 full time equivalent staff (FTE) are assigned to the investment of the Council's Pension Fund.

The Service staffing for the last three years was as shown in the table below. In administering the LGPS, the average case completed per staff member is also shown.

| FTE Staff | 12/13 | 13/14 | 14/15 |
|---------------------------------------|------------|------------|------------|
| Employing Authority work | 4.0 | 4.0 | 4.0 |
| Work for other schemes | 1.0 | 1.0 | 1.0 |
| Other work | 0.6 | 0.6 | 0.6 |
| Administration of the LGPS | 4.0 | 4.0 | 4.0 |
| Cases per staff member - average | 635 | 659 | 664 |
| Total FTE Staff within Service | 9.6 | 9.6 | 9.6 |

The Service staffing establishment is reported as part of the CIPFA Benchmarking Club. The staff turnover within the Service and how this compares to other pension services taking part in the CIPFA Benchmarking Club are shown below. This is the latest available data.

| Staff Turnover | 12/13 | | | 13/14 | | |
|-----------------|-------|------|--------|-------|------|--------|
| | Wands | All | London | Wands | All | London |
| Joining Service | 10.9% | 7.6% | 10.2% | 0.0% | 9.0% | 4.4% |
| Leaving Service | 0.0% | 6.9% | 5.9% | 0.0% | 7.0% | 5.0% |

For the current year (2014/15) two Trainee Pensions Officers and one Pensions Officer resigned. This left some months where temporary cover was utilised whilst recruitment to the vacancies was undertaken.

The CLG publish the Government's SF3 statistics for staff to pension scheme member ratios. The latest available statistics are for 2013/14 and are as shown below. The published statistics indicate that the Service is in the upper quartile:

| FTE Staff to Scheme Member Ratio | | | |
|----------------------------------|------------|-------------|--------------|
| Authority | Wandsworth | All English | Inner London |
| 11/12 | 1:4104 | 1:2790 | 1:2771 |
| 12/13 | 1:4256 | 1:2906 | 1:2903 |
| 13/14 | 1:4425 | 1:3111 | 1:3502 |

The staff to pension scheme member ratio is 1:4785 for 2014/15 reflecting the increase in total scheme membership (see below). The year has seen a significant increase in membership as a result of the continuing impact of Government legislation. It is likely that this spike in the membership increase this year will level out and return to the usual membership percentage increase of around 3% each year. This is subject to there being no other matters that may impact on membership (for example employer redundancies or contracting out of services).

Membership Numbers and Trends

Total membership numbers and trends split by member type – contributors, pensioners, dependants and deferred are shown below. The table also gives an indication of the membership trends within each member type. The data provided is for the last 5 years.

| % Diff from previous year | | | | | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Membership | 10/11 | 11/12 | % Diff | 12/13 | % Diff | 13/14 | % Diff | 14/15 | % Diff |
| No' of Contributors | 5,079 | 4,881 | -3.90 | 5,041 | +3.28 | 5,241 | +3.95 | 5,823 | +11.10 |
| No' of Pensioners | 3,871 | 4,021 | +3.87 | 4,161 | +3.48 | 4,297 | +3.27 | 4,478 | +4.21 |
| No' of Dependants | 743 | 745 | +0.27 | 758 | +1.74 | 762 | +0.53 | 761 | -0.13 |
| No' of Deferred | 6,522 | 6,768 | +3.77 | 7,064 | +4.37 | 7,400 | +4.76 | 8,079 | +9.18 |
| Total Membership | 16,215 | 16,415 | +1.23 | 17,024 | +3.71 | 17,700 | +3.97 | 19,141 | +8.14 |

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. The number of new early retirements is much lower than historical trends and so the total number of pensioners in these categories is following a downward trend as the older pensioners die.

| Reason for Leaving | 10/11 | 11/12 | 12/13 | 13/14 | 14/15 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Ill Health Retirement | 581 | 567 | 555 | 531 | 515 |
| Early Retirement | 741 | 710 | 675 | 631 | 597 |
| Total | 1,322 | 1,277 | 1,230 | 1,162 | 1,112 |

The age profile of the membership calculated as at 31 March 2015 is shown in the table and graph below.

| Type of Member/Number within Age Band | | | | |
|---------------------------------------|--------------|-----------|-----------|----------|
| Age Band | Contributing | Pensioner | Dependant | Deferred |
| 0-5 | | | | |
| 5-10 | | | | |
| 10-15 | | | 7 | |
| 15-20 | 36 | | 18 | 16 |
| 20-25 | 307 | | 14 | 191 |
| 25-30 | 538 | | | 634 |
| 30-35 | 586 | | | 836 |
| 35-40 | 594 | | 3 | 875 |
| 40-45 | 679 | 3 | 2 | 1065 |
| 45-50 | 904 | 12 | 9 | 1293 |
| 50-55 | 968 | 24 | 15 | 1491 |
| 55-60 | 736 | 113 | 33 | 1200 |
| 60-65 | 364 | 864 | 36 | 307 |
| 65-70 | 94 | 1111 | 79 | 104 |
| 70-75 | 17 | 854 | 89 | 33 |
| 75-80 | | 673 | 115 | 14* |
| 80-85 | | 448 | 133 | 12* |
| 85-90 | | 247 | 130 | 4* |
| 90-95 | | 106 | 65 | 3* |
| 95-100 | | 21 | 10 | 1* |
| 100-105 | | 2 | 3 | |

*These cases represent scheme members who are entitled to claim scheme benefits but have not done so and so some may be dead. Despite attempting to contact those with deferred retirement benefits no response has been obtained.

Councillor Members

Membership of the LGPS by Councillors is shown in the table below along with the member and employer contributions paid in the relevant years.

| Year | 12/13 | 13/14 | 14/15 |
|--|----------|----------|---------|
| Councillors paying contributions during year | 38 | 37 | 37 |
| Total Councillor contributions | £43,758 | £43,730 | £6,678 |
| Total Council contributions | £138,571 | £138,482 | £21,147 |

The Government passed legislation that removed the right for Councillors to be active members of the pension scheme from 26 May 2014 (for London Councils). As a result of this there are no longer any contributing Councillor members of the LGPS. The membership for Councillor members is made up as follows:

| | 13/14 | 14/15 |
|---------------------|--------------|--------------|
| No' of Contributors | 38 | - |
| No' of Pensioners | 3 | 16 |
| No' of Deferred | 19 | 43 |
| Total | 60 | 59* |

*One member transferred their benefits to an alternative arrangement.

Contributing Employer and Contributions Received – 2014/2015

Members Contributions split by contribution bands are shown below (table A). Figures have been rounded to the nearest thousand pounds.

| Members Contributions | Contribution Rate | | | | | | | | | | |
|-----------------------------|-------------------|------------|----------|--------------|--------------|--------------|------------|------------|------------|-----------|--------------|
| Main Scheme | 5.50% | 5.80% | 6.00% | 6.50% | 6.80% | 8.50% | 9.90% | 10.50% | 11.40% | 12.50% | Total |
| Employer | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| Wandsworth | 767 | 701 | 7 | 2,437 | 1,701 | 1,265 | 392 | 93 | 212 | 13 | 7,588 |
| Albemarle | 9 | 4 | 0 | 2 | 1 | 3 | 0 | 0 | 0 | 0 | 19 |
| Honeywell Infants | 15 | 1 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 18 |
| Honeywell Juniors | 9 | 3 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 14 |
| St Cecilia's | 4 | 17 | 0 | 21 | 3 | 3 | 1 | 0 | 0 | 0 | 49 |
| Ashcroft Academy | 7 | 22 | 0 | 27 | 5 | 4 | 0 | 0 | 0 | 0 | 65 |
| Belleville Academy | 13 | 10 | 0 | 10 | 2 | 10 | 0 | 0 | 0 | 0 | 45 |
| Bolingbroke ARK | 1 | 12 | 0 | 5 | 4 | 0 | 0 | 0 | 0 | 0 | 22 |
| Burntwood Academy | 8 | 13 | 0 | 40 | 0 | 8 | 0 | 0 | 0 | 0 | 69 |
| Chestnut Grove | 15 | 23 | 0 | 28 | 3 | 0 | 7 | 0 | 0 | 0 | 76 |
| Graveney School | 4 | 27 | 0 | 44 | 15 | 5 | 5 | 10 | 0 | 0 | 110 |
| Griffin School | 1 | 3 | 0 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 7 |
| Harris Academy Battersea | 3 | 4 | 0 | 14 | 1 | 2 | 0 | 0 | 0 | 0 | 24 |
| Mosaic SLJPS | 0 | 2 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 5 |
| Putney ARK | 2 | 5 | 0 | 8 | 13 | 8 | 0 | 0 | 0 | 0 | 36 |
| Rutherford House School | 1 | 5 | 0 | 1 | 0 | 0 | 2 | 0 | 0 | 0 | 9 |
| Southfields Academy | 10 | 21 | 0 | 31 | 12 | 5 | 2 | 4 | 0 | 0 | 85 |
| St Cecilia's C of E School | 0 | 2 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 4 |
| Tooting Primary School | 1 | 1 | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| Westbridge School | 5 | 3 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 11 |
| Civica ICT Burntwood | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Civica ICT Southfields | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Greenwich Leisure Ltd (GLL) | 14 | 12 | 0 | 63 | 16 | 0 | 0 | 0 | 0 | 0 | 105 |
| Spurgeons | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Totals | 889 | 892 | 7 | 2,749 | 1,782 | 1,313 | 409 | 107 | 212 | 13 | 8,373 |

Members contributions in the new 50/50 section of the scheme (table B).

| Members Contributions | Contribution Rate | | | | | | | | | Total |
|-----------------------|-------------------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| | 2.75% | 2.90% | 3.25% | 3.40% | 4.25% | 4.95% | 5.25% | 5.70% | 6.25% | |
| 5050 scheme | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| Wandsworth | 0 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 39 | 42 |
| Ashcroft Academy* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chestnut Grove* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Totals | 0 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 39 | 42 |

* Contributions in the 50/50 section of the Scheme for the above academies were less than £500 over the year.

Other members' contributions are shown below (table C).

| Employer | Member Additional Contributions £000's | Member Direct Contributions £000's | Total £000's |
|-----------------------------|---|---------------------------------------|-----------------|
| Wandsworth Council | 107 | 4 | 111 |
| Chestnut Grove | 2 | 0 | 2 |
| Graveney School | 1 | 0 | 1 |
| Greenwich Leisure Ltd (GLL) | 8 | 0 | 8 |
| Total | 118 | 4 | 122 |

Summary of tables to illustrate total from Note 7 in the Pension Fund Accounts.

| Source of Employee Contribution | £000's |
|--|--------------|
| Members Main Scheme (table A) | 8,373 |
| Members 5050 Scheme (table B) | 42 |
| Members Other (table C) | 122 |
| Total (Note 7 of main accounts) | 8,537 |

Contributing Employer and Contributions received

Employer Contributions are shown below.

| Employers Contributions | Contribution Rate | | | |
|--------------------------------|--------------------------|---------------|---------------|---------------|
| | 14.8% | 19.0% | 19.2% | Total |
| Employer | £000's | £000's | £000's | £000's |
| Wandsworth | 0 | 21,224 | 0 | 21,224 |
| Albemarle | 0 | 58 | 0 | 58 |
| Honeywell Infants | 0 | 61 | 0 | 61 |
| Honeywell Juniors | 0 | 47 | 0 | 47 |
| St Cecilia's | 0 | 148 | 0 | 148 |
| St George's | 0 | 2 | 0 | 2 |
| Ashcroft Academy | 0 | 199 | 0 | 199 |
| Belleville Academy | 0 | 137 | 0 | 137 |
| Bolingbroke ARK | 0 | 71 | -5 | 66 |
| Burntwood Academy | 0 | 204 | 1 | 205 |
| Chestnut Grove | 0 | 228 | 0 | 228 |
| Graveney School | 0 | 315 | 0 | 315 |
| Griffin School | 0 | 22 | 0 | 22 |
| Harris Academy Battersea | 0 | 73 | 0 | 73 |
| Mosaic SLJPS | 0 | 17 | 0 | 17 |
| Putney ARK | 0 | 98 | 0 | 98 |
| Rutherford House School | 0 | 25 | 0 | 25 |
| Southfields Academy | 0 | 251 | 0 | 251 |
| St Cecilia's C of E School | 0 | 16 | 0 | 16 |
| Tooting Primary School | 0 | 15 | 0 | 15 |
| Westbridge School | 0 | 32 | 0 | 32 |
| Civica ICT Burntwood | 5 | 0 | 0 | 5 |
| Civica ICT Southfields | 2 | 0 | 0 | 2 |
| Greenwich Leisure Ltd (GLL) | 0 | 316 | 0 | 316 |
| Spurgeons | 0 | 8 | 0 | 8 |
| Total | 7 | 23,567 | -4 | 23,570 |

Other employer contributions received are shown below.

| Employer | Incorrectly Deducted Employer Contributions £000's | Capitalised Early Payment Costs £000's | Total £000's |
|-----------------------------|---|---|-------------------------|
| Wandsworth Council | -11 | 1,481 | 1,470 |
| Graveney Academy | 0 | 10 | 10 |
| Greenwich Leisure Ltd (GLL) | 0 | 56 | 56 |
| Total | -11 | 1,547 | 1,536 |

Member additional contributions are contributions payable by members (in addition to their normal contribution) that are used to "top-up" their fund benefits by way of extra pension or scheme membership.

On occasions, contributions will be due to the Council that are paid by the member or employer direct in respect of a member who may already have left employment (i.e. they cannot be processed through the Payroll). Examples of these will be contributions payable by choice for unpaid maternity leave, authorised leave without pay or Industrial Action.

The amount of £1,547k represents the capitalised employer costs for the early payment of benefits. Further details can be found on page 36.

SECTION 2 - INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Policy

The Council 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) (Section 8). The SIP also sets out the Fund's policies in respect of responsible investment and other environmental or social issues.

The Fund subscribes to and is a member of the Local Authority Pensions Fund Forum (LAPFF). The Fund does not subscribe to and is not a member of any other bodies.

The Investment Policy and the Council's approach to the management of risk for the Fund as a whole and in respect of the investment managers is outlined in the SIP (Section 8).

A summary of how the administration of investments is controlled, who deals with each element of the portfolio, how voting rights are exercised can be also found in the SIP (Section 8).

Responsible Investment Policy

The Council has a paramount fiduciary duty to obtain the best possible financial return on the Fund investments against a suitable degree of risk. It also considers a company's 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 the company and improve investment returns to its shareholders.

The 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 considering the acquisition, retention or realisation of investments for the Fund. In the execution of this, the Committee have considered and found it appropriate to adopt the investment managers' socially responsible investment policies. These policies are reviewed with the investment managers regularly both by officers and the Committee.

Voting

Managers are instructed to vote the Fund shares in companies in line with the National Association of Pension Funds (NAPF) voting guidelines. These guidelines set out principles that should be followed when voting. The Research, Recommendations and Electronic Voting (RREV) (a corporate governance advisory service) uses NAPF voting guidelines to make recommendations on how shares should be voted on specific issues. Managers followed the RREV recommendations in all cases during 2014/2015.

Membership of external bodies

The Council is a member of the LAPFF and during the year paid £4,230 as its subscription. The Council subscribes to the Local Government Pensions Committee (LGPC) service at a cost of £5,870 per annum.

Manager changes

There were no manager changes during the year.

Asset Allocation

There were no asset allocation changes during the year.

The Council holds fund managers accountable for decisions on asset allocation within the benchmark that they operate under. In order to follow the Paul Myners's Committee recommendation, managers are challenged deliberately and formally about asset allocation proposals. Managers are invited to the Pensions Committee annually. Their views about the prospects for each asset class over a specified time horizon are recorded following their attendance and they are held to account at subsequent meetings. This accountability is re-enforced by Council Officers at quarterly meetings with managers. 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 also be found in the Statement of Investment Principles (Section 8).

The table below shows the target asset allocation compared to the actual asset allocation for the beginning and end of the year excluding cash and derivative contracts.

| | Actual Asset Allocation | Actual Asset Allocation | Target Asset Allocation | Tolerance Ranges |
|--------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|
| 31 March 2014 | £'000 | % | | |
| UK Equities | 393,262 | 38.2 | 37.5 | 32.5-42.5 |
| Overseas Equities | 389,925 | 37.8 | 37.5 | 32.5-42.5 |
| Corporate Bonds | 187,975 | 18.2 | 15.625 | 10.625 - 20.625 |
| Index Linked Bonds | 58,586 | 5.7 | 9.325 | 4.375 – 14.375 |
| Property | 1,024 | 0.1 | 0 | 0 |
| Total | 1,030,772 | 100 | | |

| 31 March 2015 | Actual Asset Allocation | Actual Asset Allocation | Target Asset Allocation | Tolerance Ranges |
|--------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|
| | £'000 | % | | |
| UK Equities | 429,641 | 36.5 | 37.5 | 32.5-42.5 |
| Overseas Equities | 463,869 | 39.4 | 37.5 | 32.5-42.5 |
| Corporate Bonds | 175,288 | 14.9 | 15.625 | 10.625 - 20.625 |
| Index Linked Bonds | 107,584 | 9.2 | 9.325 | 4.375 – 14.375 |
| Property | 1,019 | 0.1 | 0 | 0 |
| Total | 1,177,401 | 100.0 | | |

The opening and closing values of investments have been reconciled and details are given in Section 6.

The value of the Fund rose by 14.1% outstripping the rise in the consumer prices index. Information comparing Fund performance against benchmark is provided below.

Investment Performance

Returns within individual asset classes

Performance is measured on both a quarterly and an annual basis. For the year to 31 March 2015 the Fund had a return of +15.8% (compared with a return of +13.2% for the performance of the average local authority fund – the benchmark) and was ranked at the 11th percentile. The rolling three year return for the Fund is +13.3% compared with the benchmark return of +11.0% and ranked at the 7th percentile. The benchmark is measured and compiled independently by WM.

Table showing 5 year performance for the Fund

The annualised returns over 5 years are compared to the average fund as compiled within the WM Local Authority Universe. The return of +10.8% p.a. would rank the total combined Council Pension Fund in the 5th percentile.

| Periods to 31/03/15 | Fund | Benchmark | Difference |
|---------------------|-------------|------------|-------------|
| | % | % | % |
| Total Fund | 10.8 | 8.7 | +2.1 |

Table showing 10 year performance for the Fund

The annualised returns over 10 years are compared to the average fund as compiled within the WM Local Authority Universe. The return of 9.3% p.a. would rank the total combined Council Pension Fund in the 5th percentile.

| Periods to 31/03/15 | Fund | Benchmark | Relative Return % |
|---------------------|------------|------------|----------------------|
| | % | % | |
| Total Fund | 9.3 | 7.9 | +1.4 |

Individual Managers Performance

The table below shows the performance of each manager over the year to 31 March 2015.

| Manager | Year Ending 31/03/15 | | | Target & Benchmark Description |
|----------------------|-----------------------|------|----------|--|
| | Performance Benchmark | | Relative | |
| | % | % | % | |
| River and Mercantile | 6.9 | 6.6 | +0.3 | Target = Benchmark +2% PA Benchmark = FTSE All-Share Index (Total Return) |
| Longview | 28.5 | 19.1 | +9.4 | Target = Benchmark +2% PA Benchmark = MSCI World Unhedged (Total Return) |
| Allianz | 19.2 | 19.1 | +0.1 | Target = Benchmark +2% PA Benchmark = MSCI World Unhedged (Total Return) |
| Rogge | 16.1 | 15.3 | +0.8 | Target = Benchmark +1.5% PA 75% IBOXX All Stocks Corporate Bonds; 25% FTSE Actuaries Govt Securities Index – Linked > 5 years |
| UBSGAM Passive | 8.8 | 8.7 | +0.1 | Target = Benchmark 85% FTSE All Share; 15% FTSE Actuaries Govt Securities Index – Linked > 5 years |
| Baillie Gifford | 19.2 | 19.0 | +0.2 | Target = Benchmark +2% PA Benchmark = MSCI All Countries World Unhedged (Total Return) |

Investment performance over 1, 3, 5 and 10 years for each asset class is provided in the tables below.

Year to 31 March 2015

| Asset Class | Performance % Per annum | Benchmark % Per Annum | Relative % Per Annum |
|-------------------------------------|----------------------------|--------------------------|-------------------------|
| UK Equities | 7.1 | 6.3 | +0.8 |
| Overseas Equities | 20.1 | 18.1 | +2.0 |
| Global Pooled Equities including UK | 28.5 | 18.3 | +10.2 |
| UK Bonds | 15.7 | 11.8 | +3.9 |
| Overseas Bonds | 9.4 | 8.7 | +0.7 |
| Index Linked | 21.2 | 20.1 | +1.1 |
| Property | -0.5 | 15.8 | -16.3 |
| Cash | 1.3 | 1.8 | -0.5 |
| Total Assets | 15.8 | 13.2 | +2.6 |

3 years to 31 March 2015

| Asset Class | Performance % Per annum | Benchmark % Per Annum | Relative % Per Annum |
|-------------------------------------|----------------------------|--------------------------|-------------------------|
| UK Equities | 11.8 | 11.7 | +0.1 |
| Overseas Equities | 15.4 | 13.8 | +1.6 |
| Global Pooled Equities including UK | 23.2 | 14.3 | +8.9 |
| UK Bonds | 8.5 | 7.5 | +1.0 |
| Overseas Bonds | 7.3 | 3.9 | +3.4 |
| Index Linked | 9.0 | 8.6 | +0.4 |
| Property | 0.4 | 9.7 | -9.3 |
| Cash | 0.8 | 2.0 | -1.2 |
| Total Assets | 13.3 | 11.0 | +2.3 |

5 years to 31 March 2015

| Asset Class | Performance % Per annum | Benchmark % Per Annum | Relative % Per Annum |
|-------------------------------------|----------------------------|--------------------------|-------------------------|
| UK Equities | 9.4 | 9.4 | 0 |
| Overseas Equities | 10.8 | 9.5 | +1.3 |
| Global Pooled Equities including UK | * | - | - |
| UK Bonds | 9.4 | 7.9 | +1.5 |
| Overseas Bonds | * | - | - |
| Index Linked | 11.0 | 10.3 | +0.7 |
| Property | 1.3 | 8.9 | -7.6 |
| Cash | 0.7 | 1.8 | -1.1 |
| Total Assets | 10.8 | 8.7 | +2.1 |

10 Years to 31 March 2015

| Asset Class | Performance % Per annum | Benchmark % Per Annum | Relative % Per Annum |
|-------------------------------------|----------------------------|--------------------------|-------------------------|
| UK Equities | 7.7 | 8.0 | -0.3 |
| Overseas Equities | 11.6 | 9.9 | +1.7 |
| Global Pooled Equities including UK | * | - | - |
| UK Bonds | 7.0 | 6.5 | +0.5 |
| Overseas Bonds | * | - | - |
| Index Linked | 8.8 | 8.3 | +0.5 |
| Property | -0.3 | 4.6 | -4.9 |
| Cash | 2.4 | 2.9 | -0.5 |
| Total Assets | 9.3 | 7.9 | +1.4 |

*Neither Global Pooled Equity Funds including UK nor Overseas Bonds were held for the full period.

An analysis of the fund assets at 31 March 2015 including cash is laid out in table format below.

| Asset Class | UK | Non-UK | Total |
|------------------------------------|---------|---------|-----------|
| | £000 | £000 | £000 |
| Equities | 429,641 | 463,869 | 893,510 |
| Bonds | 183,090 | 99,782 | 282,872 |
| Property Fund | 1,019 | - | 1,019 |
| Other fund balances including cash | 28,705 | 1,043 | 29,748 |
| Total | 642,455 | 564,694 | 1,207,149 |

An analysis of the fund assets including cash for 31 March 2014 is provided below.

| Asset Class | UK | Non-UK | Total |
|------------------------------------|---------|---------|-----------|
| | £000 | £000 | £000 |
| Equities | 393,262 | 389,925 | 783,187 |
| Bonds | 156,828 | 89,733 | 246,561 |
| Property Fund | 1,024 | | 1,024 |
| Other fund balances including cash | 24,658 | 1,653 | 26,311 |
| Total | 575,772 | 481,311 | 1,057,083 |

An analysis of the investment income received during the year to 31 March 2015 is provided below.

| Asset Class | UK | Non-UK | Total |
|------------------------------------|--------|--------|--------|
| | £000 | £000 | £000 |
| Equities | 7,224 | 7,018 | 14,242 |
| Bonds | 3,988 | 3,954 | 7,942 |
| Property Fund | 46 | 0 | 46 |
| Other fund balances including cash | 114 | 2 | 116 |
| Total | 11,372 | 10,974 | 22,346 |

An analysis of the investment income received during the year to 31st March 2014 is provided below.

| Asset Class | UK | Non-UK | Total |
|------------------------------------|--------|--------|--------|
| | £000 | £000 | £000 |
| Equities | 8,686 | 6,559 | 15,245 |
| Bonds | 3,511 | 3,407 | 6,918 |
| Property Fund | - | - | - |
| Other fund balances including cash | 127 | 9 | 136 |
| Total | 12,324 | 9,975 | 22,299 |

SECTION 3 - SCHEME ADMINISTRATION REPORT

Overview

1. The Council's Pensions Service (the Service) is part of the Finance Department and provides pension and compensation services to current and former employees and pensioners of Wandsworth Council. These services include the full range of administrative duties for an employing and administering authority as follows:
 - (i) Administer the Local Government Pension Scheme (LGPS) as an Employing and Administering Authority in accordance with relevant legislation and Committee decisions.
 - (ii) Administer the Teachers' Pension Scheme (TPS) as an employer.
 - (iii) Administer the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions.
 - (iv) Maintain a central staff filing system for each employee of the Council.
 - (v) Aim to meet or better the performance standards set out in the Business Plan.
 - (vi) Aim to meet or improve upon the detailed service specifications in the Fund current members', deferred members' and pensioners' Charters.
 - (vii) Provide advice to Fund members, the Directors Board and the Council on options available under the Council's Pension Schemes.
 - (viii) Contribute to national policy formulation on pensions to reflect the Council's preferred approach.
 - (ix) Prudently manage the budgets under the Service's control.
 - (x) Work to the Government Customer Service Excellence criteria where appropriate (previously known as Charter Mark) to improve service quality.
 - (xi) Exploit information technology to improve service standards and efficiency.
 - (xii) Train and develop staff to meet these service objectives.
2. Wandsworth's Pensions Service comprises ten staff working in three distinct areas dealing with all aspects of pensions administration except investments. The Service deals with pensions for members of the LGPS with Wandsworth and the London Pensions Fund Authority (LPFA). It also carries out Employing Authority duties for teachers in the TPS.
3. The work of each area is set out below:

Teachers, Councillors and Projects

4. This team deals mainly with pensions for the Council's 1,900 teaching employees, liaising with and providing employment and pensions information to Teachers' Pensions. Similarly, this team also performs employer's functions for members of the LGPS contributing to the LPFA pension fund. This team deals with Councillors pension entitlements. It also carries out monthly reconciliations of payroll pension deductions and makes monthly payments of those contributions to the relevant body. It deals with redundancy and compensation benefits for teaching employees and undertakes ad-hoc projects.

Transfers and Contributions

5. This team deals with contributing members of the LGPS with Wandsworth performing the duties of both an administering and employing authority. The main areas of work cover the deduction of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits.

Benefits

6. This team deals with pensioners, retirement, re-employment, death benefits and calculations of redundancy and compensation benefits for non-teaching employees.
7. In addition to carrying out the day-to-day functions of pensions administration, the Service formulates Council policies within the legislative framework of regulations under the LGPS, TPS, compensation, age discrimination and HM Revenue and Customs' rules. This includes actively commenting on changes to legislation and Government policy.

General

8. The Council's Suggestions and Complaints procedure is available to any person who wishes to make a suggestion or complaint about the Service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions Service web pages at www.wandsworth.gov.uk/pensions or on request. An application at stage one of the process is to the Borough Solicitor and at stage two to the Head of Pensions, Payroll and Support.
9. Our Service Manager is Colette Hollands and the Service Assistant Managers are Carrie Adubofour and Martin Doyle. They can be contacted by telephoning (020) 8871 6524 or by email to pensions@wandsworth.gov.uk. The Service reports to the Council's Head of Pensions, Payroll and Support, Robert Claxton.

Review of 2014/2015

10. The Service held the Government' Charter Mark Award for Excellence from 2000 to 2008. Since the Award was discontinued, the Service has continued to use Charter Mark Standards, where possible, as a method of monitoring and reporting its performance.
11. The number of fund members that the Service deals with has increased year on year. The table below shows the membership numbers for the last three years.

| Type of Member | 12/13 | 13/14 | 14/15 |
|-------------------------|---------------|---------------|---------------|
| Contributing | 5,041 | 5,241 | 5,823 |
| Pensioner | 4,919 | 5,059 | 5,239 |
| Deferred | 7,064 | 7,400 | 8,079 |
| Total Membership | 17,024 | 17,700 | 19,141 |

12. Pension fund membership increased by over 8% during the year. This is due to the Government's introduction of Automatic Enrolment (AE) legislation with effect from March 2013. A further spike in active membership is likely to occur in 2017/18 as a result of the requirement to re-enrol those who opt out of joining the scheme every 3 years. Similarly, it is expected that the number of deferred members will not increase at the same rate in the future due to the re-introduction of the 2 year vesting period (up from 3 months). Members with short service may elect to take a refund of their contributions. The latest available Government SF3 statistics (for 2013/2014) indicate the cost per member for all English and Welsh Authorities was £26.81 compared with an inner London average of £40.97 per scheme member and £24.86 for Wandsworth. Despite the continued increase in the numbers of scheme members, the Service has maintained a below average "cost per member" as follows:

| Wandsworth | 12/13 | 13/14 | 14/15 |
|--------------------------|--------------|--------------|--------------|
| Cost per member | £22.98 | £24.86 | £24.25 |
| English and Welsh | 12/13 | 13/14 | 14/15 |
| Authorities - average | £27.02 | £26.81 | TBC |

The cost per member is calculated from as the administration charge to the pension fund for the year divided by the total membership at year end ($\text{£}464,230/19,141 = \text{£}24.25$).

13. Information about the LGPS and the Council's Pensions Service can be found on the Council's website at <http://www.wandsworth.gov.uk/pensions>
14. The Service produces a Business Plan annually as a means of planning major tasks for the forthcoming year. Major tasks completed during the year included: producing Annual Benefit Statements for current and Councillor members, deferred and pensioner members; undertaking tender exercises for four Council services; legal and administration work in connection with the establishment of three academies; legal and other associated work required for Richmond Council to join the Shared Service, Local Government Pension

Scheme 2014 HR & Employer and employee seminars, and completion of over 300 redundancy estimates.

15. The quality of the member data is acknowledged by the council's actuary as being high quality for both the purposes of the tri-ennial valuation and mortality experience assessment. Normal yearly processes of updating member records with contributions and pay and the production of benefit statements provides further opportunities for the Service to check and correct data as needed.
16. The pensioner members currently receive a monthly payslip and an annual increase letter. Payments to pensioners are suspended on the return of payslips marked "gone away" with no further payments being made until verification of a new address is received.
17. Assurance over the effective and efficient operation of administration is provided by regular audits. The internal Audit Report for Pension Scheme Administration for 2014/15 was undertaken in March and the level of assurance given was qualified – "while there is a basically sound system, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk."
18. Of the ten broad areas of work that are included in the audit checking as required, concerns in two areas were identified: joiners to the scheme – three cases within the sample were identified as still to be processed on to the pensions administration system; and reconciliation of payroll to pensions payments to pensioners – not all the cases within the annual check had been completed. Recommendations for both were set as Priority 2 (for local management action) and the Head of Pensions Shared Service accepted and commented on the recommendations that delays in completed work during the year had occurred as a result of the implementation of the new scheme, increased volumes of work across the Shared Service coupled with staff vacancies. A future Service re-organisation along with recruitment to vacant posts will be undertaken in order to lower the risk in the future.

IT/Software update

19. The Service uses the Local Government pensions software, Altair. During the year, the system was successfully updated with two major software releases and several "patches" for regulation changes and enhancements to processes. The annual processes of Pensions Increase, variable rate contributions updating, pensionable pay updates and benefit statements for current and deferred members were all successfully completed on the Altair system during the year.
20. In addition, following the merging of pensions member data for Camden and Wandsworth, the Merton and Richmond Councils data was also combined to the Altair version of software (in December and February).

Dispute Resolution

21. There are set procedures in the Local Government Pension Scheme Regulations for dealing with disputes about the pension scheme. This is the

Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are considered by the Borough Solicitor at Stage 1. If a complainant still has a dispute this may then be referred at Stage 2 to the Assistant Director of Finance (Pensions and Payments). After this a further referral is available to the Pensions Ombudsman (PO). Shown below are statistics and a commentary for cases considered under IDRP for the past two years.

| IDRP - Number of appeals | 13/14 | 14/15 |
|---------------------------------|--------------|--------------|
| In progress at start of year | 1 | 1 |
| New appeals during the year | 1 | 5 |
| In progress at end of year | 1 | 4 |

| IDRP | 13/14 | | | 14/15 | | |
|----------------------|------------------|------------------|-----------|------------------|------------------|-----------|
| | 1st stage | 2nd Stage | PO | 1st stage | 2nd Stage | PO |
| Complaint Not Upheld | 1 | 0 | 0 | 1 | 0 | 0 |
| Complaint Upheld | 0 | 0 | 0 | 1 | 0 | 0 |
| Withdrawn | 0 | 0 | 0 | 0 | 0 | 0 |

2013/2014

22. The 1 case in progress at the start of 13/14 was an appeal against the Council's decision not to award early payment of benefits on the grounds of ill health.
23. During the year, 1 case was concluded at stage 1. The complaint was upheld was an appeal against the Council's decision not to award early payment of benefits on the grounds of ill health.
24. The new appeal received during the year related to an appeal against the Council's decision not to award early payment of benefits on the grounds of ill health.
25. At the end of the year 1 case was in progress: the appeal against the Council's decision not to award early payment of benefits on the grounds of ill health.

2014/2015

26. The 1 case in progress at the start of 14/15 was an appeal against the Council's decision not to award early payment of benefits on the grounds of ill health.
27. During the year, 2 cases were concluded at stage 1. One complaint was not upheld and one was upheld; both were appeals against the Council's decision not to award early payment of benefits on the grounds of ill health.
28. Of the 4 new appeals received during the year, 3 related to appeals against the Council's decision not to award early payment of benefits on the grounds

of ill health and the other appeal was against the Council's decision to award ill health tier 3 pension benefits..

29. At the end of the year 4 cases were in progress: 3 appeals against the Council's decision not to award early payment of benefits on the grounds of ill health and the appeal against the Council's decision to award ill health tier 3 pension benefits.

SECTION 4 - ACTUARIAL REPORT ON FUND

Under regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, LGPS Pension Funds are required to commission and publish a valuation of the Fund on a specified date every three years. The last valuation was undertaken as at 31 March 2013 in accordance to the regulations in force at that date, being the Local Government Pension Scheme (Administrations) Regulations 2008. An Executive Summary from the Fund actuary, Barnett Waddingham, is given below. This was reviewed by the Pensions Committee as part of the triennial actuarial report as at March 2013 when the funding strategy was reviewed and the current employer contributions were set. See also Section 7 (Funding Strategy Statement). The latest valuation report can be seen here:

http://www.wandsworth.gov.uk/downloads/file/10969/pension_fund_valuation_report_2013

Report by the Fund's Actuary - Executive Summary – as at 31 March 2013

1. We have carried out an actuarial valuation of Wandsworth Council Pension Fund ("the Fund") as at 31 March 2013, as requested by Wandsworth Council. The Fund is part of the Local Government Pension Scheme ("LGPS").
2. The valuation was carried out in accordance with Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 ("the Regulations") as amended. The main purpose of the valuation is to review the financial position of the Fund and to set the level of future contributions for the employers in the Fund.
3. The results of the valuation are set out in the full report addressed to Wandsworth Council as the Administering Authority to the Fund. That report is not intended to assist any user other than the Administering Authority in making decisions.
4. The advice given in the report is subject to and complies with Technical Actuarial Standards issued by the Financial Reporting Council (in particular, the Pensions TAS and the generic TASs relating to reporting, data and modelling).
5. The results of the valuation are that the past service funding level of the Fund as a whole has increased from 91% to 95% between 31 March 2010 and 31 March 2013, largely due to better than expected investment returns over the period and a change in assumptions underlying the present value of liabilities, reflecting a change in methodology since the last valuation.
6. At the same time, the contribution rate for the average employer, including payments to target full funding, has remained at 19.0% of pensionable salaries. This reflects an increase in the cost of future benefit accrual and a reduction in the deficit recovery period from 20 years to 17 years.



Alison Hamilton FFA



Roisin McGuire FFA

Actuary's Statement as at 31 March 2015

Introduction

The last full triennial valuation of the Wandsworth Council Pension Fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2015 and comments on the main factors that have led to a change since the full valuation. The estimated funding position in this statement at 31 March 2015 is based on market movements over the period rather than being a full valuation using updated member data.

2013 valuation results

The 2013 valuation certified a common contribution rate of 19.0% p.a. of pensionable pay to be paid by each employing body participating in the Wandsworth Council Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset value

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so these asset values have been adjusted in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant. At 31 March 2013, the value of the smoothed assets used was £980m and this has increased over the period to 31 March 2015 to an estimated £1.2bn. This increase reflects strong investment returns over the period as well as the contributions paid towards funding the deficit. We have estimated the investment return on the Fund assets to be around 15% for the 2014/15 year.

Assumptions

The assumptions used to value the benefits at 31 March 2013 and used in providing an estimated position at 31 March 2015 are summarised below:

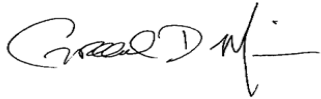
| Assumption | 31 March 2013 | 31 March 2015 |
|-------------------|---|---------------|
| Discount rate | 5.4% p.a. | 4.9% p.a. |
| Pension increases | 2.7% p.a. | 2.5% p.a. |
| Salary increases | 2.7% p.a. until 31 March 2015 and 4.5% p.a. thereafter | 4.3% p.a. |
| Mortality | <p>The post retirement mortality assumptions adopted are as follows:</p> <ul style="list-style-type: none"> • For females, the S1PA series making allowance for CMI 2012 projected improvements and a long term rate of 1.5% p.a. • For male manual workers, the S1PA heavy series with a 110% multiplier making allowance for CMI 2012 projected improvements and a long term rate of 1.5% p.a. • For male officer workers, the S1PA light series with a 110% multiplier making allowance for CMI 2012 projected improvements and a long term rate of 1.5% p.a. | |
| Retirement | Each member retires at a single age, weighted based on when each part of their pension is payable unreduced | |
| Commutation | Members will convert 50% of the maximum possible amount of pension into cash | |

Updated position since the 2013 valuation

Since March 2013, investment returns have been higher than assumed at the 2013 triennial valuation and therefore the assets are higher than assumed. The value of the liabilities has also increased due to the accrual of new benefits and due to the decrease in the real discount rate underlying the valuation funding model. Overall, we estimate that the funding position has improved from 95% at

the 2013 valuation to 100% as at 31 March 2015 as the assets have increased at a faster rate than the liabilities as a result of the strong investment performance as well as the deficit contributions paid into the Fund over the period. The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017. We will continue to monitor the financial position of the Fund on a regular basis.

Graeme D Muir FFA

A handwritten signature in black ink, appearing to read 'Graeme D Muir', with a stylized flourish at the end.

Partner, Barnett Waddingham

Pension Fund Accounts Reporting Requirement**Wandsworth Council Pension Fund - IAS26 Disclosures 31 March 2015****Introduction**

We have been instructed by Wandsworth Council, the administering authority to the Wandsworth Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2015.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

Valuation data**Data sources**

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Wandsworth Council:

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2015;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2013, 31 March 2014 and 31 December 2014, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2015; and
- Details of any new early retirements for the period to 31 March 2015 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2013.

| Member data summary | Number | Salaries/Pensions | Average age |
|---------------------|--------|-------------------|-------------|
| | | £000s | |
| Actives | 5,121 | 118,669 | 46 |
| Deferred pensioners | 7,047 | 10,498 | 46 |
| Pensioners | 4,894 | 32,284 | 72 |

Early retirements (further details at the end of this Section)

We have been notified of 44 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £640,500. There were an additional 11 new early retirements which did not cause a strain on the Fund. These have been excluded from these figures.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2015 is estimated to be 15%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Wandsworth Council Pension Fund as at 31 March 2015 is as follows:

| Employer asset share - bid value | 31 Mar 2015 | | 31 Mar 2014 | |
|----------------------------------|------------------|-------------|------------------|-------------|
| | £000s | % | £000s | % |
| Gilts | 117,156 | 10% | 52,495 | 5% |
| Other bonds | 168,257 | 14% | 148,374 | 13% |
| Equities | 887,875 | 74% | 829,880 | 79% |
| Property | 1,143 | 0% | 1,023 | 0% |
| Cash | 23,638 | 2% | 29,000 | 3% |
| Total | 1,198,069 | 100% | 1,060,772 | 100% |

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2015 is likely to be different from that shown due to estimation techniques.

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2015, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2013. The post retirement mortality tables have been constructed based on analysis carried out by Barnett Waddingham's Longevity Consulting team. For male officers, this is 110% of the S1PA Light tables; for male manual workers, this is 110% of the S1PA Heavy tables; and for females this is 100% of the S1PA tables. For a male member's dependant, we have adopted 115% of the S1DA tables; and for a female member's dependant, we have adopted 110% of the S1PA Light tables where the member is an officer, and 110% of the S1PA Heavy tables where the member is a manual worker. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% p.a. The assumed life expectations from age 65 are:

| Life expectancy from age 65 (years) | | 31 Mar 2015 | 31 Mar 2014 |
|-------------------------------------|---------|-------------|-------------|
| Retiring today | | | |
| | Males | 23.8 | 23.7 |
| | Females | 25.2 | 25.1 |
| Retiring in 20 years | | | |
| | Males | 25.9 | 25.8 |
| | Females | 27.6 | 27.4 |

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- No members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in Section 4 and the Appendices are as follows:

| Assumptions as at | 31 Mar 2015 | | 31 Mar 2014 | | 31 Mar 2013 | |
|-------------------|-------------|-------|-------------|-------|-------------|-------|
| | % p.a. | Real | % p.a. | Real | % p.a. | Real |
| RPI increases | 3.2% | - | 3.6% | - | 3.3% | - |
| CPI increases | 2.4% | -0.8% | 2.8% | -0.8% | 2.5% | -0.8% |
| Salary increases | 4.2% | 1.0% | 4.6% | 1.0% | 4.7% | 1.4% |
| Pension increases | 2.4% | -0.8% | 2.8% | -0.8% | 2.5% | -0.8% |
| Discount rate | 3.3% | 0.1% | 4.4% | 0.8% | 4.2% | 0.9% |

These assumptions are set with reference to market conditions at 31 March 2015.

Our estimate of the duration of the Fund's liabilities is 18 years.

The discount rate is the annualised yield at the 18 year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 18 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.2% p.a. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% p.a. below RPI i.e. 2.4% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salaries are then assumed to increase at 1.8% p.a. above CPI in addition to a promotional scale.

Results and disclosures

We estimate that the net liability as at 31 March 2015 is a liability of £328,873,000.

The results of our calculations for the year ended 31 March 2015 are set out in the appendices below:

Table (1) below sets out the Statement of financial position as at 31 March 2015; and

Table (2) on the following page details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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



Melanie Stephenson FIA
Actuary

Table (1)
Statement of financial position as at 31 March 2015

| Net pension asset as at | 31 Mar 2015 | 31 Mar 2014 | 31 Mar 2013 |
|---|----------------|----------------|----------------|
| | £000s | £000s | £000s |
| Present value of the defined benefit obligation | 1,526,942 | 1,305,794 | 1,197,876 |
| Fair value of Fund assets (bid value) | 1,198,069 | 1,060,772 | 992,840 |
| Net liability in balance sheet | 328,873 | 245,022 | 205,036 |

*Present value of funded obligation consists of £1,468,675,000 in respect of vested obligation and £58,267,000 in respect of non-vested obligation.

Table (2) Asset and benefit obligation reconciliation for the year to 31 March 2015

| Reconciliation of opening & closing balances of the present value of the defined benefit obligation | Year to | Year to |
|---|------------------|------------------|
| | 31 Mar 2015 | 31 Mar 2014 |
| | £000s | £000s |
| Opening defined benefit obligation | 1,305,794 | 1,197,876 |
| Service cost | 30,955 | 27,772 |
| Interest cost | 56,631 | 49,622 |
| Change in financial assumptions | 171,419 | 1,757 |
| Change in demographic assumptions | - | 21,362 |
| Experience loss/(gain) on defined benefit obligation | - | 40,168 |
| Liabilities assumed / (extinguished) on settlements | - | - |
| Estimated benefits paid net of transfers in | (48,973) | (41,839) |
| Past service costs, including curtailments | 2,537 | 857 |
| Contributions by Scheme participants | 8,579 | 8,219 |
| Unfunded pension payments | - | - |
| Closing defined benefit obligation | 1,526,942 | 1,305,794 |

| Reconciliation of opening & closing balances of the fair value of Fund assets | Year to | Year to |
|---|------------------|------------------|
| | 31 Mar 2015 | 31 Mar 2014 |
| | £000s | £000s |
| Opening fair value of Fund assets | 1,060,772 | 992,840 |
| Interest on assets | 46,338 | 41,505 |
| Return on assets less interest | 107,474 | 37,062 |
| Other actuarial gains/(losses) | (337) | (661) |
| Administration expenses | (726) | (647) |
| Contributions by employer including unfunded | 24,942 | 24,293 |
| Contributions by Scheme participants | 8,579 | 8,219 |
| Estimated benefits paid plus unfunded net of transfers in | (48,973) | (41,839) |
| Settlement prices received / (paid) | - | - |
| Closing Fair value of Fund assets | 1,198,069 | 1,060,772 |

Early Retirement within the LGPS

The Council has powers to make discretionary payments under the LGPS. These mainly relate to payments for early retirements. The Council is also required to decide upon entitlements for ill health retirement benefits in accordance with the regulations. The Council requires capital payments from Revenue into the Pension Fund at the time of each retirement to pay for all early and ill health retirements. Accordingly funding risks are minimised. Capital payments into the Pension Fund for early retirements during 2013/14 and 2014/15 were £1,161,477 and £1,547,415 respectively. The table below gives details of the number of each type of case and the text following the table gives a brief description of each type.

| Type of Early Retirement | Number in 13/14 | Number in 14/15 |
|-----------------------------------|----------------------------|----------------------------|
| Ill Health | 6 | 2 |
| Redundancy | 41 | 66 |
| Efficiency of the Service | 2 | 4 |
| Voluntary Early Retirement | 2 | 1 |
| Total | 51 | 73 |
| Total Capitalised Payments | £1,161,477 | £1,547,415 |

Under the LGPS it is possible to receive payment of accrued pension benefits early depending on the reason membership of the LGPS ends. The LGPS regulations permit early retirement on the following grounds:

- Ill Health – at any age where the Council terminates the member's employment on the grounds of permanent ill health. In this case the member receives their accrued pension benefits plus, in most cases, their pensionable membership period is increased.
- Redundancy – from age 55 where the Council terminates the member's employment on the grounds of redundancy. In this case, the member receives their accrued pension benefits without any reduction for the early payment.
- Efficiency of the Service - from age 55 where the Council terminates the member's employment on the grounds of business efficiency. In this case, the member receives their accrued pension benefits without any reduction for the early payment.
- Voluntary Early Retirement - from age 55 where the member volunteers to retire before normal pension age. The amount of benefits payable may be subject to actuarial reduction depending on the age and length of membership. The Council has the discretion to waive, in whole or in part, the actuarial reduction on benefits

SECTION 5 - GOVERNANCE COMPLIANCE STATEMENTIntroduction

1. In accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013 the Council is required to prepare, maintain and publish a written governance statement addressing certain issues. Regulation 55 is reproduced as follows: -

“Administering authorities: governance compliance statement -

55. —(1) An administering authority must prepare a written statement setting out—

- a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- b) if the authority does so—
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee or sub-committee meetings,
 - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards establishment).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.”

Governance at Wandsworth

2. The detail of the governance structure for the Council is set out in detail in the Council’s Constitution, which is available at http://www.wandsworth.gov.uk/downloads/download/38/council_constitution
3. The Council delegates its function as an administering authority under the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 or parts of that function in relation to maintaining a pension fund to the Pensions Committee.

4. The frequency of Pension Committee meetings is in accordance with the Council's Constitution.
5. The terms of reference, structure and operational procedures of delegations can be found in the Council's Constitution.
6. Committee Membership is determined in accordance with the Council's Constitution and does not include Fund members or representatives of other employers.
7. Employers (and schools through the Wandsworth Schools' Forum) are consulted on decisions that affect them.
8. Fund members have an interest in benefit levels and the administration and service they receive when dealing with their pension rights. The Council's Pensions Service holds member User Groups that meet on average twice a year. The groups are made up of volunteers and provide a forum for Council officers and Fund members to raise any issues of concern. The volunteers are asked to actively comment on the administration of the LGPS within the Council. All Fund members who contact the Pensions Service with an enquiry are sent a user satisfaction survey. This enables the member to comment, anonymously if they wish, on the service they have received, to make any suggestions for improvements or register dissatisfaction if appropriate.
9. Fund member views on issues pertaining to them are reported to committee as part of the decision-making process either directly or through the Council's Staff Side Secretary who has prior access to all committee reports and therefore has special status to directly comment on any items being considered.

| Version | Nature of Change | Implemented |
|----------------|--|--------------------|
| V1 | Initial Creation (Paper No. 06-324) | March 2006 |
| V2 | Reference to statutory guidance from CLG (Paper No. 09-150) | January 2009 |
| V3 | Replace references General Purposes Committee and Finance Sub-Committee with the Pensions Committee (Paper No. 10-591) | July 2010 |
| V4 | Local Government Pension Scheme Regulation updated to reflect current scheme for this report | August 2015 |

Wandsworth Council Pension Fund

GOVERNANCE COMPLIANCE STATEMENT

| Principle (CLG statutory Guidance) | | Compliance |
|------------------------------------|---|--|
| A - Structure | <p>(a) That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> <p>(b) That representatives of participating LGPS employers, admitted bodies and fund members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>(c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>(d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p> | <p>(a) Compliant. The management of the Council's Pension Fund administration and investment is delegated to the Council's Pensions Committee.</p> <p>(b) Partial compliance. Although not strictly compliant, views from affected employers and representation from Fund members are considered (via User Groups) and these views are reflected within committee reports where appropriate.</p> <p>(c) Not applicable.</p> <p>(d) Not applicable.</p> |

| | | |
|--|--|---|
| <p>B - Representation</p> | <p>(a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: -</p> <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 ad-hoc basis). <p>(b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p> | <p>(a) Partially Compliant. All Committee meetings are open to employers and Scheme members should they wish to attend. Pension Scheme members can put forward their views on both the investment and administration of the Pension Fund via User Groups. Alternatively the Staff Side Secretary has special status to directly comment on any items being considered. Independent observers are not given membership of committees. Expert advisers' comments are included in reports where appropriate.</p> <p>Additionally the Council's Constitution allows citizens or other interested bodies the right to request the Council and certain of the Council's committees and sub-committees to receive deputations from persons wishing to address councillors on agenda business to be discussed.</p> <p>(b) Not applicable.</p> |
| <p>C - Selection and Role of Lay Members</p> | <p>(a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>(b) 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.</p> | <p>(a) Compliant. Members of the Committees are fully aware of their status, role and the function that they are required to perform.</p> <p>(b) Compliant.</p> |

| | | |
|--|---|---|
| D - Voting | <p>(a) That 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.</p> | <p>(a) Compliant. Voting rights apply to Committee Members in accordance with the Council's Constitution.</p> |
| E - Training/ Facility time/Expenses | <p>(a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p> <p>(b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p> | <p>(a) Compliant. Training is available to members of the Pensions Committee to assist with the decision-making process where required.</p> <p>(b) Compliant. Training is available to members of the Pensions Committee.</p> |
| F - Meetings (frequency/quorum) | <p>(a) That an administering authority's main committee or committees meet at least quarterly.</p> <p>(b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</p> <p>(c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</p> | <p>(a) Compliant. The Pensions Committee meets quarterly.</p> <p>(b) Not applicable.</p> <p>(c) Compliant. Interests of key stakeholders are represented through User Groups, the Staff Side Secretary or from taxpayers.</p> |

| | | |
|---------------|--|---|
| | | |
| G - 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. Committee papers are sent to Members at least 5 clear working days prior to the meeting, subject to the provisions of Section 100 of the Local Government Act 1972, as amended. Additionally, committee papers are published on the Council's website before the committee meeting date. |
| H - Scope | That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Compliant. The Pensions Committee consider a wider range of Pension Fund issues outside of investment. |
| I - 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. The Governance Policy Statement is published on the Council's website and its existence is publicised in Scheme member newsletters. Scheme members and other interested parties may attend committee meetings and all Council committee reports are sent to the Council's Staff Side representative. |

Commentary on Governance Activity

The Committee Reports shown here are available on the internet by following the link to Reports and Minutes at:

<http://www.wandsworth.gov.uk/Home/CouncilandGovernment/>

3 September 2014 at 7.30 p.m.

Paper No. 14 – 432 reported on general pensions matters regarding responses to Government consultations, an update on progress with setting up the London Collective Investment Vehicle, that Richmond Council has agreed in principle to join the Pensions Administration Shared Service, and proposed that the Council joins the Local Authority Pension Fund Forum.

Paper No. 14 - 433 reported on a draft Secretary of State direction for Council comments concerning Multi-Academy Trusts. The report proposed opposing such a direction because of the risks this may place on the pension fund.

Paper No. 14 – 434 presented the Pension Fund Annual Report for 2013/2014.

Paper No. 14 – 435 presented the Pension Fund Audit Report from PricewaterhouseCoopers LLP (PwC), the Council's external auditors indicated that PwC anticipate issuing an unqualified audit opinion on the pension fund accounts. The external auditor made two recommendations on internal control in respect of reconciling sales and purchases between the custodian and investment managers' records and in reviewing controls and processes in place for the monitoring of contributions. The report proposed that both recommendations be accepted.

Report No. 14 – 436 concerned pension fund investment performance.

2 December 2014 at 7.30 p.m.

Paper No. 14 - 648 provided an update on general pensions matters since the last meeting of the Committee on progress with the London Collective Investment Vehicle, proposed delegating authority to the Director of Finance to fund future CIV developments where they are cost effective; updated that two boroughs are progressing their interest to join the pensions administration shared service and updates on an application from a multi-academy trust to join the pension scheme.

Paper No. 14 – 649 updated on Pension Fund Liabilities and Options for Investments.

Paper No. 14 – 650 concerned pension fund investment performance.

2 February 2015 at 7.30 p.m.

Paper No's. 15 - 49/49A concerned the formation of a Local Pension Board as required by legislation and statutory guidance.

Paper No. 15 – 50 concerned the proposed Pension Fund Revenue Budget for 2014 to 2018.

Paper No. 15 – 51 concerned a potential investment in Multi Asset Credit.

Paper No. 15 - 52 concerned pension fund investment performance.

Conflicts of Interest

The Pension Fund is governed by elected members acting as trustees and accordingly the Code of Conduct for elected members' sets out how any conflicts of interests involving elected members acting as trustees should be addressed. This is available at http://www.wandsworth.gov.uk/downloads/file/52/code_of_conduct

The Code includes provisions dealing with an elected member's general obligations to treat others with respect and not to bully, intimidate or do anything that compromises the impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and 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.

SECTION 6 - STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority is required to:

- (i) 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 this Authority, that officer is the chief financial officer
- (ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- (iii) Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The chief financial officer is responsible for the preparation of the Authority'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 (the Code).

In preparing this Statement of Accounts, the chief financial officer has:

- (i) selected suitable accounting policies and then applied them consistently
- (ii) made judgements and estimates that were reasonable and prudent
- (iii) complied with the local authority Code.

The chief financial officer has also:

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

CERTIFICATE

I certify that the statement of accounts gives a true and fair view of the financial position of the Pension Fund of Wandsworth Council at the end of the period to which it relates and its income and expenditure for that period, including any material events occurring after the net assets statement date, until the date of this certificate.

Signatures

Chris Buss
Director of Finance

Councillor Maurice Heaster
Chairman of Pensions Committee

Independent auditors' statement to the Members of Wandsworth Borough Council (the "Council") on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion, Wandsworth Borough Council's pension fund financial statements (the "financial statements"):

- are consistent with the pension fund accounts included within the Statement of Accounts of Wandsworth Borough Council for the year ended 31 March 2015; and
 - have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
-

What we have examined

The financial statements comprise:

- the Net Assets Statement as at 31 March 2015;
- the Fund Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the Director of Finance

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of Wandsworth Borough Council. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consists of the management and financial performance report, the investment policy and performance report, scheme administration report, actuarial report on fund, governance compliance statement, the funding strategy statement, the statement of investment principles and the communications policy statement.

This report, including the opinions, has been prepared for and only for the Council's members as a body 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 – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Julian Rickett (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

September 2015

(a) The maintenance and integrity of the Wandsworth Borough Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

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PENSION FUND ACCOUNT

| | <u>Note</u> | <u>31st March 2015</u> £'000 | <u>31st March 2014</u> £'000 |
|---|-------------|---------------------------------|---------------------------------|
| Dealing with members, employers and others directly involved in the fund | | | |
| Contributions | 7 | 33,643 | 32,409 |
| Transfers in from other pension funds | 8 | 1,424 | 3,114 |
| | | <hr/> 35,067 | <hr/> 35,523 |
| Benefits | 9 | (48,539) | (42,815) |
| Payments to and on account of leavers | 10 | (838) | (1,933) |
| Administration expenses | 11 | (747) | (722) |
| | | <hr/> (50,124) | <hr/> (45,470) |
| Net withdrawals from dealings with members | | (15,057) | (9,947) |
| Returns on Investments | | | |
| Investment Income | 12 | 22,346 | 22,299 |
| Taxes on Income | 13 | (276) | (266) |
| Profit and losses on disposal of investments and changes in market value of investments | 15a | 146,168 | 56,743 |
| Investment management expenses | 14 | (3,115) | (2,635) |
| | | <hr/> 165,123 | <hr/> 76,141 |
| Net increase in the net assets available for benefits during the year | | <hr/> 150,066 | <hr/> 66,194 |
| Net assets at the start of the year | | 1,057,083 | 990,889 |
| Net assets at the end of the year | | <hr/> 1,207,149 | <hr/> 1,057,083 |

NET ASSETS STATEMENT

| | <u>Note</u> | <u>31st March 2015</u> £'000 | <u>31st March 2014</u> £'000 |
|--|-------------|---------------------------------|---------------------------------|
| Investment assets | 15 | 1,188,352 | 1,049,071 |
| Cash deposits | 15 | 23,041 | 18,893 |
| | | <hr/> 1,211,393 | <hr/> 1,067,964 |
| Investment liabilities | 15 | (4,632) | (10,275) |
| Current assets | 20 | 2,612 | 2,316 |
| Current liabilities | 21 | (2,224) | (2,922) |
| Net assets of the fund available to fund benefits at the period end | | <hr/> 1,207,149 <hr/> | <hr/> 1,057,083 <hr/> |

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

NOTES TO THE PENSION FUND

1. Description of Fund

Wandsworth Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by Wandsworth Council. The Council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the fund's Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972, Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended).
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a defined benefit occupational pension scheme to provide pensions and other benefits for pensionable employees of Wandsworth Council and other scheduled and admitted bodies within the Borough of Wandsworth. Teachers are not included as they come within the Teachers' national pension scheme. The fund is overseen by the Council's Pensions Committee.

b) Membership

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

There are 32 employer organisations within the fund including the Council itself. 19 employer organisations, including the Council, have active members, the remaining employer organisations have deferred members and pensioners only.

| Wandsworth Pension Fund | <u>31st March 2015</u> | <u>31st March 2014</u> |
|--|-------------------------------|-------------------------------|
| Number of employers with active members | 19 | 16 |
| Number of active members in fund | | |
| Council | 5,229 | 4,733 |
| Other employers | 594 | 508 |
| Total | 5,823 | 5,241 |
| Number of pensioners (including dependants) | | |
| Council | 5,184 | 5,013 |
| Other employers | 55 | 46 |
| Total | 5,239 | 5,059 |
| Deferred pensioners | | |
| Council | 7,815 | 7,234 |
| Other employers | 264 | 166 |
| Total | 8,079 | 7,400 |

c) Funding

Benefits are funded by contributions and returns on investment. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2015. Member contributions are matched by employers' contributions which are set on triennial actuarial funding valuations. The last such valuation was at 31st March 2013. Currently, the employer contribution rate payable by each employing authority ranges from 14.8% - 19.0% of pensionable pay.

d) Benefits

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

| | <u>Service pre 1st April 2008</u> | <u>Service post 31st March 2008 to 31st March 2014</u> |
|-----------------|--|---|
| Pension | Each year worked is worth 1/80 x final pensionable salary. | Each year worked is worth 1/60 x final pensionable salary. |
| 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. |

The LGPS has been amended for service from 1st April 2014. From this date the LGPS provides a Career Average Revalued Earnings (CARE) pension (rather than a pension based on final salary) with a benefit build up rate of 1/49th (rather than 1/60th) for future membership. Protections apply to benefits built up before 1st April 2014. More details about the new scheme can be found here: www.lgps2014.org for members of the scheme and here: www.lgpsregs.org for administrators of the scheme.

There are a range of other benefits provided under the fund including early retirement, disability pensions and death benefits. For more details, please refer to the Wandsworth Pension Fund scheme handbook available from Wandsworth Council.

Benefits are index-linked in order to keep pace with inflation.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position at year-end as at 31st March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take into account of obligations to pay benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

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 in the payroll period to which they relate.

The Council's contribution rate is 19% of pensionable salary. For the year ended 31st March 2015 this comprised a normal contribution rate of 16.0% in respect of future accrual and an additional rate of 3.0% required to repay the deficit. The contribution rate payable by other employers contributing to the Fund ranges from 14.8%-19.0%. Employer deficit contributions are accounted for in accordance with the agreement under which they are paid or in the absence of an agreement on a receipts basis. Contributions are recognised when salaries are paid.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

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 Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see Note 22) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in (see Note 8).

c) Investment income

i. Interest income

Interest Income is recognised in the fund account as it accrues.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed within investment assets.

iii. Distribution from pooled funds

Pooled investment vehicles are accumulation funds and as such the change in market value also includes income, net of withholding tax, which is re-invested in the fund. All of the pooled funds are accumulation funds with the exception of the Reef property fund.

iv. Movement in the net market value of investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sale of investments during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities. Pensions and lump sum payments are considered to be due at the later of the date of retirement and the date that the option to receive benefits is exercised.

e) Taxation

The fund is a registered public service scheme 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. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related. Performance targets are set on a three-year rolling basis in relation to the benchmark.

- Allianz
- Longview Partners
- River and Mercantile
- Rogge Global Partners

Further information on the performance fees is provided in the Fund's Statement of Investment Principles.

A fixed sum of the Council's costs representing management time spent by officers on investment management is charged to the fund.

Net assets statement

h) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets 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 fair value of assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i. Market - quoted investments

The value of an investment for which there is a readily available market price is determined by the bid price ruling on the final day of the accounting period.

ii. Fixed interest securities

Fixed interest securities are recorded at bid price based on their current yields.

iii. Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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 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) 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.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

n) Additional voluntary contributions

Wandsworth Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are 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.

AVCs are not included in the accounts, which is in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 200913093). They are disclosed as a note only (Note 22).

4. Critical Judgements in Applying Accounting Policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

6. Events after the Year End

There have been no events since 31st March 2015, and up to the date when these accounts were certified that require any adjustments to these accounts.

7. Contributions

| | <u>31st March 2015</u> £'000 | <u>31st March 2014</u> £'000 |
|---------------------|---|---|
| By category | | |
| Employers | | |
| - Normal | 19,839 | 18,521 |
| - Deficit | 3,720 | 4,580 |
| - Augmentation | 1,547 | 1,161 |
| Members | 8,537 | 8,147 |
| Total | <u>33,643</u> | <u>32,409</u> |
| By authority | | |
| Wandsworth Council | 30,853 | 30,161 |
| Scheduled bodies | 2,284 | 1,716 |
| Admitted bodies | 506 | 532 |
| Total | <u>33,643</u> | <u>32,409</u> |

8. Transfers in from other Pension Funds

| | <u>31st March 2015</u> £'000 | <u>31st March 2014</u> £'000 |
|----------------------|---|---|
| Individual transfers | 1,424 | 3,114 |
| Total | <u>1,424</u> | <u>3,114</u> |

9. Benefits

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|--|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| By category | | |
| Pensions | 35,892 | 33,263 |
| Commutation and lump sum retirement benefits | 11,466 | 8,704 |
| Lump sum death benefits | 1,181 | 848 |
| Total | <u>48,539</u> | <u>42,815</u> |
| By authority | | |
| Wandsworth Council | 47,817 | 42,098 |
| Scheduled bodies | 502 | 420 |
| Admitted bodies | 220 | 297 |
| Total | <u>48,539</u> | <u>42,815</u> |

10. Payments to and on Account of Leavers

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|-----------------------------------|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Refund to members leaving service | 52 | 20 |
| Individual transfers | 786 | 1,913 |
| Total | <u>838</u> | <u>1,933</u> |

11. Administration Expenses

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|--------------------|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Central recharge | 676 | 646 |
| External audit fee | 24 | 18 |
| Actuarial fees | 11 | 19 |
| Other | 36 | 39 |
| Total | <u>747</u> | <u>722</u> |

12. Investment Income

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|--|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Fixed interest securities | 7,942 | 6,918 |
| Equity dividends | 14,232 | 15,172 |
| Pooled investments - unit trusts and other managed funds | 56 | 73 |
| Interest on cash deposits | 116 | 136 |
| Total | <u>22,346</u> | <u>22,299</u> |

13. Taxes on Income

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|----------------------------|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Withholding tax - equities | 276 | 266 |
| Total | <u>276</u> | <u>266</u> |

14. Investment Management Expenses

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|--------------------------------|-------------------------------|-------------------------------|
| | £'000 | £'000 |
| Management fees | 2,942 | 2,495 |
| Custody fees | 79 | 66 |
| Performance monitoring service | 15 | 12 |
| Investment consultancy | 79 | 62 |
| Total | <u>3,115</u> | <u>2,635</u> |

Management fees include performance fees of £0.6 million in 2014/15 (£0.5 million in 2013/14).

15. Investments

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|--------------------------------------|--------------------------------|--------------------------------|
| | £'000 | £'000 |
| Investment assets | | |
| Fixed interest securities | 227,929 | 200,869 |
| Equity | 670,317 | 576,292 |
| Pooled investments | 278,136 | 252,587 |
| Pooled property investments | 1,019 | 1,024 |
| Derivative contracts | | |
| - Futures | 295 | 198 |
| - Forward currency contracts | 1,339 | 1,517 |
| Cash deposits | 23,041 | 18,893 |
| Cash collateral | 527 | - |
| Investment income due | 4,919 | 4,392 |
| Amounts receivable for sales | 3,871 | 12,192 |
| Total investment assets | <u>1,211,393</u> | <u>1,067,964</u> |
| Investment liabilities | | |
| Derivative contracts | | |
| - Futures | (148) | (92) |
| - Forward currency contracts | (935) | (621) |
| Amounts payable for purchases | (2,922) | (9,460) |
| Obligation to return cash collateral | (627) | (102) |
| Total investment liabilities | <u>(4,632)</u> | <u>(10,275)</u> |
| Net investment assets | <u><u>1,206,761</u></u> | <u><u>1,057,689</u></u> |

a) Reconciliation of movements in investments and derivatives

| | <u>Market value as</u> <u>at 31st March</u> <u>2014</u> <u>£'000</u> | <u>Purchases</u> <u>during the</u> <u>year and</u> <u>derivative</u> <u>payments</u> <u>£'000</u> | <u>Sales</u> <u>during the</u> <u>year and</u> <u>derivative</u> <u>receipts</u> <u>£'000</u> | <u>Change in</u> <u>Market value</u> <u>during the</u> <u>year</u> <u>£'000</u> | <u>Market value as</u> <u>at 31st March</u> <u>2015</u> <u>£'000</u> |
|---|---|--|--|---|---|
| Fixed interest securities | 200,869 | 97,193 | (95,433) | 25,300 | 227,929 |
| Equities | 576,292 | 189,926 | (191,978) | 96,077 | 670,317 |
| Pooled investments | 252,587 | 10,000 | (7,405) | 22,954 | 278,136 |
| Pooled property investments | 1,024 | - | - | (5) | 1,019 |
| | 1,030,772 | 297,119 | (294,816) | 144,326 | 1,177,401 |
| Derivative contracts: | | | | | |
| Futures | 106 | 2,227 | (1,201) | (985) | 147 |
| Forward currency contracts | 896 | 4,959 | (8,090) | 2,639 | 404 |
| | 1,031,774 | 304,305 | (304,107) | 145,980 | 1,177,952 |
| Other investment balances: | | | | | |
| Cash deposits | 18,893 | | | 188 | 23,041 |
| Amount receivable for sales of investments | 12,192 | | | | 3,871 |
| Investment income due | 4,392 | | | | 4,919 |
| Amounts payable for purchases of investments | (9,460) | | | | (2,922) |
| Cash Collateral | - | | | | 527 |
| Obligation to Return Cash Collateral | (102) | | | | (627) |
| | 1,057,689 | | | 146,168 | 1,206,761 |

| | <u>Market value as</u> <u>at 31st March</u> <u>2013</u> £'000 | <u>Purchases</u> <u>during the</u> <u>year and</u> <u>derivative</u> <u>payments</u> £'000 | <u>Sales during</u> <u>the year and</u> <u>derivative</u> <u>receipts</u> £'000 | <u>Change in</u> <u>Market value</u> <u>during the year</u> £'000 | <u>Market value as</u> <u>at 31st March</u> <u>2014</u> £'000 |
|---|--|---|---|--|--|
| Fixed interest securities | 163,734 | 209,013 | (163,832) | (8,046) | 200,869 |
| Equities | 534,062 | 383,323 | (394,765) | 53,672 | 576,292 |
| Pooled investments | 243,080 | 87,677 | (89,042) | 10,872 | 252,587 |
| Pooled property investments | 9,489 | - | (8,559) | 94 | 1,024 |
| | 950,365 | 680,013 | (656,198) | 56,592 | 1,030,772 |
| Commodities | - | 70 | (70) | - | - |
| Derivative contracts: | | | | | |
| Futures | 152 | 491 | 738 | (1,275) | 106 |
| Forward currency contracts | (230) | 9,216 | (9,708) | 1,618 | 896 |
| | 950,287 | 689,790 | (665,238) | 56,935 | 1,031,774 |
| Other investment balances: | | | | | |
| Cash deposits | 36,646 | | | (192) | 18,893 |
| Amount receivable for sales of investments | 3,758 | | | | 12,192 |
| Investment income due | 3,796 | | | | 4,392 |
| Amounts payable for purchases of investments | (4,471) | | | | (9,460) |
| Obligation to Return Cash Collateral | (48) | | | | (102) |
| | 989,968 | | | 56,743 | 1,057,689 |

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £0.9 million (£1.3 million in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

b) Analysis of investments (excluding derivative contracts)

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|---|-------------------------|-------------------------|
| | £'000 | £'000 |
| Fixed interest securities | | |
| UK | | |
| Public sector quoted | 4,288 | - |
| Corporate quoted | 71,218 | 61,241 |
| Public sector Index linked | 68,592 | 58,586 |
| Overseas | | |
| Public sector quoted | 5,908 | 1,568 |
| Corporate quoted | 77,923 | 79,474 |
| | <u>227,929</u> | <u>200,869</u> |
| Equities | | |
| UK | | |
| Quoted | 206,448 | 186,367 |
| Overseas | | |
| Quoted | 463,869 | 389,925 |
| | <u>670,317</u> | <u>576,292</u> |
| Pooled funds - additional analysis | | |
| UK | | |
| Fixed income unit trust | 38,992 | 37,001 |
| Equity unit trust | 223,193 | 206,895 |
| Overseas | | |
| Fixed income unit trust | 15,951 | 8,691 |
| | <u>278,136</u> | <u>252,587</u> |
| Pooled property investments | 1,019 | 1,024 |
| | <u>1,019</u> | <u>1,024</u> |
| | <u><u>1,177,401</u></u> | <u><u>1,030,772</u></u> |

Analysis of derivatives

Objectives and policies for holding derivatives

Derivative instruments are used in the bond portfolio managed by Rogge in order to help achieve the objectives of the Portfolio more efficiently than would otherwise be the case through direct dealing in underlying securities. Such objectives include: the reduction of cost or the generation of additional capital gains or income with an acceptable level of risk. The underlying asset of any derivative must be an investment that is permitted to be held in the portfolio.

In practice, it sometimes may be prohibitive on a cost-benefit basis to purchase or sell physical bonds. In these instances, gaining a desired market exposure through a derivative instrument, such as a bond future, may provide a more efficient means of accessing risk for the portfolio. Frequently the use of futures is for risk-reductive purposes, ie. hedging away unwanted interest rate exposure which can be present from our security selection process when choosing which issuers to invest in. In some instances, futures will also be used in the portfolio to gain active interest rate exposures in certain countries, where it makes sense to gain exposure through the futures market as opposed to dealing directly in physical securities.

In all instances, derivatives are not used to leverage the portfolio (ie. lending against securities to raise additional capital), or to materially incur portfolio risk in a way which would exceed the stated duration limits of the portfolio, or with the intention of increasing active risk (tracking error) above stated limits.

Derivative positions are managed as an integral part of the portfolio strategy. The portfolio, inclusive of derivative positions, is bound by the performance objectives and constraints set out in the guidelines. All obligations resulting from purchases or sales of futures would be covered at all times by holdings within the portfolio.

Rogge is the only manager permitted to use derivatives. Rogge use two types of derivative; Forward Foreign Exchange contracts and Futures. Their use enables Rogge to manage positions efficiently where cash market liquidity is poor and to reduce trading costs. The use of derivatives for speculation or to gear the fund is prohibited. The contract with Rogge restricts their use as follows:

“The net value of the derivatives in place should not exceed 5% of the portfolio’s market value”.

a. Futures

Futures are used by the manager to manage interest rate risk exposure as described above.

b. Forward foreign currency

The Pension Fund holds foreign exchange forward currency contracts to hedge the fund’s exposure to investments denominated in overseas currencies. The purpose of this is to manage risk of exposure to foreign currencies, the interaction with investments held and fluctuations in exchange rates depending on conditions and expectations in these markets.

Futures

Outstanding exchange traded futures contracts are as follows:

| <u>Type</u> | <u>Expires</u> | <u>Economic</u> | <u>Market value</u> | <u>Economic</u> | <u>Market value</u> |
|-------------------------------|--------------------|-----------------|---------------------|-----------------|---------------------|
| | | <u>exposure</u> | <u>31st March</u> | <u>exposure</u> | <u>31st March</u> |
| | | <u>£'000</u> | <u>2015</u> | <u>£'000</u> | <u>2014</u> |
| Assets | | | | | |
| UK Fixed Income Futures | Less than one year | 13,645 | 268 | - | - |
| Overseas Fixed Income Futures | Less than one year | (14,519) | 27 | (40,753) | 198 |
| Total assets | | | <u>295</u> | | <u>198</u> |
| Liabilities | | | | | |
| UK Fixed Income Futures | Less than one year | - | - | 7,558 | (33) |
| Overseas Fixed Income Futures | Less than one year | (23,464) | (148) | 34,724 | (59) |
| Total liabilities | | | <u>(148)</u> | | <u>(92)</u> |
| Net futures | | | <u><u>147</u></u> | | <u><u>106</u></u> |

Open forward currency contracts

| <u>Settlements</u> | <u>Currency</u> <u>bought</u> | <u>Local</u> <u>value of</u> <u>currency</u> <u>bought</u> <u>'000</u> | <u>Currency</u> <u>sold</u> | <u>Local</u> <u>value of</u> <u>currency</u> <u>sold</u> <u>'000</u> | <u>Asset</u> <u>value</u> <u>£'000</u> | <u>Liability</u> <u>value</u> <u>£'000</u> |
|--------------------|----------------------------------|--|--------------------------------|--|--|--|
| 1-2 months | CAD | 8,137 | EUR | (5,702) | 201 | - |
| 1-2 months | EUR | 7,370 | USD | (8,432) | - | (347) |
| 1-2 months | GBP | 1,920 | EUR | (2,629) | 18 | - |
| 1-2 months | GBP | 21,887 | USD | (33,168) | - | (458) |
| 1-2 months | JPY | 19,176 | GBP | (105) | 3 | - |
| 1-2 months | JPY | 442,100 | USD | (3,703) | - | (10) |
| 1-2 months | USD | 6,498 | CAD | (8,120) | 59 | - |
| 1-2 months | USD | 25,388 | EUR | (22,458) | 851 | - |
| 1-2 months | USD | 3,941 | GBP | (2,607) | 48 | - |
| 1-2 months | USD | 13,600 | JPY | (1,607,334) | 159 | (29) |
| 1-2 months | USD | 6,469 | NZD | (8,819) | - | (91) |
| 2-3 months | MXN | 466 | USD | (31) | - | - |

Open forward currency contracts at 31st March 2015**1,339****(935)****Net forward currency contracts at 31st March 2015****404**

Prior year comparative:

Open forward currency contracts at 31st March 2014

1,517

(621)

Net forward currency contracts at 31st March 2014

896

Investments analysed by Fund Manager

| | <u>Market value as at 31st March 2015 £'000</u> | <u>%</u> | <u>Market value as at 31st March 2014 £'000</u> | <u>%</u> |
|------------------------------------|--|-----------------|--|-----------------|
| Aberdeen (Property Pooled Vehicle) | 1,019 | 0.1 | 1,030 | 0.1 |
| Northern Trust (Custodian) | 125 | 0.0 | 1,058 | 0.1 |
| Rogge (Enhanced Bond) | 251,541 | 20.8 | 219,687 | 20.8 |
| Longview (Global Equity) | 211,253 | 17.5 | 167,025 | 15.8 |
| River & Mercantile (UK Equity) | 152,443 | 12.6 | 145,066 | 13.7 |
| Allianz (Global Equity) | 168,805 | 14.0 | 143,850 | 13.6 |
| UBSGAM (Passive Multi Asset) | 262,185 | 21.7 | 243,896 | 23.1 |
| Baillie Gifford (Global Equity) | 159,379 | 13.2 | 135,967 | 12.9 |
| Nomura (Transition Manager) | 11 | 0.0 | 110 | 0.0 |
| | <u>1,206,761</u> | | <u>1,057,689</u> | |

The following investments represent more than 5% of the net assets of the fund

| | <u>Market value as at 31st March 2015 £'000</u> | <u>%</u> | <u>Market value as at 31st March 2014 £'000</u> | <u>%</u> |
|-------------------------------|--|-----------------|--|-----------------|
| UBSGAM Life UK Equity Tracker | 223,193 | 18.5 | 206,895 | 19.6 |

The Fund held 5 Pooled Funds, they are shown in the table below

| <u>Asset Description</u> | <u>Market value as at 31st March 2015 £'000</u> |
|---|--|
| UBSGAM Life UK Equity Tracker | 223,193 |
| UBSGAM Life UK Over 5 Year Index Linked Gilt Tracker | 38,992 |
| Rogge Funds Plc Global Select High Yield Bond | 11,180 |
| Rogge Heitman Short Duration Global Real Estate Bond Fund | 4,771 |
| Rreef UK Property Fund No 3 | 1,019 |
| Total | <u>279,155</u> |

The top 10 equity holdings are shown in the table below

| <u>Asset Description</u> | <u>Market value as at 31st March 2015 £'000</u> |
|--|--|
| United Health Group | 10,347 |
| HCA Holdings | 9,825 |
| Fidelity National Information Services | 9,096 |
| Delphi Automotive | 8,809 |
| HSBC Holdings | 8,703 |
| Time Warner | 8,574 |
| Accenture | 7,921 |
| Wells Fargo & co | 7,912 |
| Oracle | 7,850 |
| Bank New York Mellon | 7,786 |
| Total | <u>86,823</u> |

Stock Lending

Stock lending is prohibited by the fund's Statement of Investment Principles.

16. Financial Instruments

a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

| | <u>Designated</u> <u>as fair</u> <u>value</u> <u>through</u> <u>change in</u> <u>market</u> <u>value</u> <u>2014/15</u> <u>£'000</u> | <u>Loans and</u> <u>receivables</u> <u>2014/15</u> <u>£'000</u> | <u>Financial</u> <u>liabilities</u> <u>at</u> <u>amortised</u> <u>cost</u> <u>2014/15</u> <u>£'000</u> | <u>Designated</u> <u>as fair</u> <u>value</u> <u>through</u> <u>change in</u> <u>market</u> <u>value</u> <u>2013/14</u> <u>£'000</u> | <u>Loans and</u> <u>receivables</u> <u>2013/14</u> <u>£'000</u> | <u>Financial</u> <u>liabilities at</u> <u>amortised</u> <u>cost</u> <u>2013/14</u> <u>£'000</u> |
|-------------------------------|--|--|--|--|--|--|
| Financial assets | | | | | | |
| Fixed interest securities | 227,929 | | | 200,869 | | |
| Equities | 670,317 | | | 576,292 | | |
| Pooled investments | 278,136 | | | 252,587 | | |
| Pooled property investments | 1,019 | | | 1,024 | | |
| Private/equity infrastructure | | | | | | |
| Property | | | | | | |
| Derivative contracts | 1,634 | | | 1,715 | | |
| Cash | | 23,041 | | | 18,893 | |
| Other investment balances | 9,317 | | | 16,584 | | |
| Current assets | | 2,612 | | | | |
| | 1,188,352 | 25,653 | | 1,049,071 | 18,893 | |
| Financial liabilities | | | | | | |
| Derivative contracts | (1,083) | | | (714) | | |
| Other investment balances | (6) | | | (1) | | |
| Creditors | | | (3,543) | | | (9,560) |
| Current liabilities | | | (2,224) | | | |
| | (1,089) | | (5,767) | (715) | - | (9,560) |
| | 1,187,263 | 25,653 | (5,767) | 1,048,356 | 18,893 | (9,560) |

b) Net gains and losses on financial instruments

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|---|------------------------|------------------------|
| | £'000 | £'000 |
| Financial assets | | |
| Fair value through change in market value | 144,327 | 56,592 |
| Loans and receivables | 187 | (192) |
| Financial liabilities | | |
| Fair value through change in market value | 1,654 | 343 |
| Total | <u>146,168</u> | <u>56,743</u> |

c) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

| | <u>Book cost</u> | <u>Fair value</u> | <u>Book cost</u> | <u>Fair value</u> |
|---|------------------|-------------------|------------------|-------------------|
| | 2014/15 | 2014/15 | 2013/14 | 2013/14 |
| | £'000 | £'000 | £'000 | £'000 |
| Financial assets | | | | |
| Fair value through change in market value | 917,997 | 1,188,352 | 894,985 | 1,049,071 |
| Loans and receivables | 25,653 | 25,653 | 18,893 | 18,893 |
| Total financial assets | <u>943,650</u> | <u>1,214,005</u> | <u>913,878</u> | <u>1,067,964</u> |
| Financial liabilities | | | | |
| Fair value through change in market value | (623) | (1,089) | (102) | (715) |
| Financial liabilities at amortised cost | (5,767) | (5,767) | (9,464) | (9,560) |
| Total financial liabilities | <u>(6,390)</u> | <u>(6,856)</u> | <u>(9,566)</u> | <u>(10,275)</u> |

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

d) 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

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted 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

Financial instruments at Level 3 are those 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, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

This would also include pooled property investments. Pooled property investment managers will sign off the valuation to confirm it is within expectation. The external valuer's opinion prevail and the valuation is produced on the basis of market value in accordance with the latest edition of the RICS appraisal and valuation standards. Signed valuations are then passed to the real estate pricing team for inclusion in the relevant fund NAV.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

| | <u>Quoted market price</u> Level 1 £'000 | <u>Using observable inputs</u> Level 2 £'000 | <u>With significant unobservable inputs</u> Level 3 £'000 | <u>Total</u> £'000 |
|---|--|--|---|-----------------------|
| Values at 31st March 2015 | | | | |
| Financial assets | | | | |
| Fair value through change in market value | 689,279 | 490,035 | 9,038 | 1,188,352 |
| Loans and receivables | 25,653 | - | - | 25,653 |
| Total financial assets | 714,932 | 490,035 | 9,038 | 1,214,005 |
| Financial liabilities | | | | |
| Fair value through change in market value | (1,089) | - | - | (1,089) |
| Financial liabilities at amortised cost | (5,767) | - | - | (5,767) |
| Total financial liabilities | (6,856) | - | - | (6,856) |
| Net financial assets | 708,076 | 490,035 | 9,038 | 1,207,149 |

| | <u>Quoted market price</u> Level 1 £'000 | <u>Using observable inputs</u> Level 2 £'000 | <u>With significant unobservable inputs</u> Level 3 £'000 | <u>Total</u> £'000 |
|---|--|--|---|-----------------------|
| Values at 31st March 2014 | | | | |
| Financial assets | | | | |
| Fair value through change in market value | 691,166 | 447,932 | 9,421 | 1,148,519 |
| Loans and receivables | 31,086 | - | - | 31,086 |
| Total financial assets | 722,252 | 447,932 | 9,421 | 1,179,605 |
| Financial liabilities | | | | |
| Fair value through change in market value | (121,916) | - | - | (121,916) |
| Total financial liabilities | (121,916) | - | - | (121,916) |
| Net financial assets | 600,336 | 447,932 | 9,421 | 1,057,689 |

17. Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, over the long-term, 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 risk (price risk, currency risk and interest rate risk) 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. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations.

a) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of employing six fund managers. Three manage Global Equities, one manages UK Equities, one manages Bonds and one has a multi asset passive mandate. The fund has an asset allocation rebalancing policy that ensures that diversification is maintained in the event that particular asset class values increase or decrease to an extent that rebalancing is required to retain diversification. These ranges are reviewed quarterly by the Finance Directorate. Further details of current policy are included in the Fund's Statement of Investment Principles. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages risk by applying risk-weighted maximum exposures to individual investments and asset classes.

Government bond futures are used to manage market risk.

Other price risk

Other 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 investments present a risk of loss of capital.

The fund's investment management agreements for non-pooled investments provide tolerances for investment manager deviation from market asset class returns expressed as the tracking error from benchmark returns. Fund officers review these metrics with fund managers at each quarter.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk — sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance measurement company (WM Company), the Council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

| | <u>Potential market</u> <u>movements</u> (+)/(-) |
|-----------------------------|---|
| UK equities | 10.1% |
| Overseas equities | 9.5% |
| UK bonds | 6.8% |
| Overseas bonds | 6.7% |
| UK index linked | 9.5% |
| Pooled property investments | n/a |

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

| <u>Asset Type</u> | <u>Value as at 31st</u> <u>March 2015</u> £'000 | <u>Percentage</u> <u>change</u> % | <u>Value on</u> <u>increase</u> £'000 | <u>Value on</u> <u>decrease</u> £'000 |
|-----------------------------|---|---|---|---|
| UK equities | 429,641 | 10.1 | 473,035 | 386,247 |
| Overseas equities | 463,869 | 9.5 | 507,937 | 419,801 |
| UK bonds | 114,498 | 6.8 | 122,284 | 106,712 |
| Overseas bonds | 99,782 | 6.7 | 106,467 | 93,097 |
| UK Index Linked | 68,592 | 9.5 | 75,108 | 62,076 |
| Pooled property investments | 1,019 | n/a | 1,019 | 1,019 |
| | <u>1,177,401</u> | | <u>1,285,850</u> | <u>1,068,952</u> |

| <u>Asset Type</u> | <u>Value as at 31st</u> <u>March 2014</u> £'000 | <u>Percentage</u> <u>change</u> % | <u>Value on</u> <u>increase</u> £'000 | <u>Value on</u> <u>decrease</u> £'000 |
|-----------------------------|---|---|---|---|
| UK equities | 393,262 | 11.8 | 439,667 | 346,857 |
| Overseas equities | 389,925 | 12.2 | 437,496 | 342,354 |
| UK bonds | 98,242 | 5.7 | 103,842 | 92,642 |
| Overseas bonds | 89,733 | 6.6 | 95,655 | 83,811 |
| UK Index Linked | 58,586 | 9.0 | 63,859 | 53,313 |
| Pooled property investments | 1,024 | n/a | 1,024 | 1,024 |
| | <u>1,030,772</u> | | <u>1,141,543</u> | <u>920,001</u> |

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments 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 fund's direct exposure to interest rate movements as at 31st March 2015 and 31st March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset type | 31st March 2015 | 31st March 2014 |
|---------------------------|------------------------|------------------------|
| | £'000 | £'000 |
| Cash and cash equivalents | 23,041 | 18,893 |
| Fixed interest securities | 227,929 | 200,869 |
| Fixed income pooled funds | 54,943 | 45,691 |
| Total | 305,913 | 265,453 |

Changes in interest rates principally affect investments held in cash or fixed interest securities. Changes in interest rates, currencies and credit risk are all inter-related and affected by many influences including sovereign interest rates and factors affecting each individual investment. Investment managers manage these risks through the choice of their investments, by having benchmark outputs to attain and reporting variances from benchmark returns. The Council reviews outcomes versus the assigned benchmark and the exposure to different classes of credit ratings and these results are reviewed quarterly by the Director of Finance.

Government bond futures are used to manage interest rate risk.

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The fund's long-term average rates are expected to move less than 50 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 50 basis point change in interest rates.

| Asset type | <u>Carrying amount as at 31st March 2015</u> £'000 | <u>Change in year in the net assets available to pay benefits</u> | |
|---|---|---|-----------------|
| | | +50BPS £'000 | -50BPS £'000 |
| Cash and cash equivalents | 23,041 | 115 | (115) |
| Fixed interest securities | 227,929 | 1,140 | (1,140) |
| Fixed income pooled funds | 54,943 | 275 | (275) |
| Total change in assets available | 305,913 | 1,530 | (1,530) |

| Asset type | <u>Carrying amount as at 31st March 2014</u> £'000 | <u>Change in year in the net assets available to pay benefits</u> | |
|---|---|---|-----------------|
| | | +50BPS £'000 | -50BPS £'000 |
| Cash and cash equivalents | 18,893 | 94 | (94) |
| Fixed interest securities | 200,869 | 1,004 | (1,004) |
| Fixed income pooled funds | 45,691 | 228 | (228) |
| Total change in assets available | 265,453 | 1,326 | (1,326) |

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 the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

Many securities denominated in foreign currencies also gain significant proportions of their income and profits from jurisdictions outside of the market on which those securities are quoted. Over the long-term currency rates reflect value in a particular territory and to the extent that a particular security is exposed to currency risk in a particular territory, investment managers make decisions about this in their analysis of what securities to buy, sell or hold. The fund manages this risk by setting investment benchmarks and comparing overall outcomes against those benchmarks. These outcomes are reported to the Director of Finance and Pensions Committee for each quarter of the year.

Foreign exchange forwards are used to manage currency risk.

The following table summarises the fund's currency exposure as at 31st March 2015 and as at the previous year end:

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|---------------------------------------|------------------------|------------------------|
| | £'000 | £'000 |
| Currency exposure - asset type | | |
| Overseas cash | 1,164 | 1,514 |
| Overseas quoted securities | 463,869 | 389,925 |
| Overseas fixed income unit trusts | 15,951 | 8,691 |
| Overseas public sector bonds (quoted) | 5,908 | 1,568 |
| Overseas corporate bonds (quoted) | 77,923 | 79,474 |
| Total overseas assets | 564,815 | 481,172 |

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the funds performance measurer (WM Company), the Council considers the likely volatility associated with foreign exchange rate movements to be 6.1% in 2014/15 (5.7% in 2013/14) (as measured by one standard deviation).

A 6.1% fluctuation in the currency is considered reasonable based on the fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6.1% 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 as follows:

| Asset Type | <u>Carrying amount as</u> <u>at 31st March 2015</u> | <u>Change to net assets available</u> | |
|---|--|---------------------------------------|----------------|
| | | <u>to pay benefits</u> | |
| | £'000 | +6.1% | -6.1% |
| | | £'000 | £'000 |
| Overseas cash | 1,164 | 1,235 | 1,093 |
| Overseas quoted securities | 463,869 | 492,165 | 435,573 |
| Overseas fixed income unit trusts | 15,951 | 16,924 | 14,978 |
| Overseas public sector bonds (quoted) | 5,908 | 6,268 | 5,548 |
| Overseas corporate bonds (quoted) | 77,923 | 82,676 | 73,170 |
| Total change in assets available | 564,815 | 599,268 | 530,362 |

| Asset Type | Carrying amount as at 31st March 2014 £'000 | Change to net assets available to pay benefits | |
|---------------------------------------|---|---|----------------|
| | | +5.7% £'000 | -5.7% £'000 |
| Overseas cash | 1,514 | 1,600 | 1,428 |
| Overseas quoted securities | 389,925 | 412,151 | 367,699 |
| Overseas equity unit trusts | - | - | - |
| Overseas fixed income unit trusts | 8,691 | 9,186 | 8,196 |
| Overseas public sector bonds (quoted) | 1,568 | 1,657 | 1,479 |
| Overseas corporate bonds (quoted) | 79,474 | 84,004 | 74,944 |
| Total change in assets available | 481,172 | 508,598 | 453,746 |

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.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have Aaa rating from a leading ratings agency.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31st March 2015 was £22 million (£19 million in 2013/14).

This was held with the following institutions:

| <u>Summary</u> | <u>Rating</u> | <u>Balances as at</u> <u>31st March 2015</u> £'000 | <u>Balances as at</u> <u>31st March 2014</u> £'000 |
|------------------------------|---------------|--|--|
| Money market funds | | | |
| NTGI global cash fund | Aaa | 21,705 | 18,133 |
| Bank deposit accounts | | | |
| Variation margin | | 564 | 638 |
| Bank current accounts | | | |
| NT custody cash accounts | | 772 | 122 |
| Held with Council's Bankers | | 2,423 | 2,087 |
| Total | | <u>25,464</u> | <u>20,980</u> |

The Council reviews exposure to different classes of credit ratings for fixed-interest securities and these results are reviewed quarterly by the Director of Finance. As part of the review the fund's exposure to lower rated bonds is monitored to ensure the risk of default is managed. The table below shows the credit rating of the fund's fixed interest securities as at 31st March 2015.

| <u>Rating</u> | <u>Balances as at</u> <u>31st March 2015</u> £'000 | <u>Balances as at</u> <u>31st March 2014</u> £'000 |
|---------------|--|--|
| AAA | - | 944 |
| AA+ | 72,880 | 58,586 |
| AA | - | - |
| AA- | 551 | 2,490 |
| A+ | 6,417 | 10,255 |
| A | 14,734 | 18,783 |
| A- | 14,498 | 26,670 |
| BBB+ | 39,056 | 19,756 |
| BBB | 43,200 | 25,680 |
| BBB- | 21,704 | 23,986 |
| BB+ | 5,786 | 4,308 |
| BB | 6,812 | 5,548 |
| BB- | 764 | 844 |
| B+ | 1,144 | 1,367 |
| B | 283 | 552 |
| B- | 100 | 1,100 |
| | <u>227,929</u> | <u>200,869</u> |

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 Council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments. The Council has immediate access to its pension fund cash holdings.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31st March 2015 the value of illiquid assets was £1.0 million, which represented 0.1% of the total fund assets (£1.0 million in 2013/14, which represented 0.1% of the total fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities in the accounts at 31st March 2015 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31st March 2013.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. At the 2013 actuarial valuation, the fund was assessed as 95% funded (91% at the March 2010 valuation), and the deficit recovery period reduced to 17 years (20 years at the March 2010 valuation). This corresponded to a deficit of £55 million (2010 valuation: £75 million) at that time.

The common contribution rate (the rate which all employers in the fund pay) was set as:

| <u>Year</u> | <u>Employers' contribution</u> <u>rate</u> |
|-------------|---|
| 2015/16 | 19% |
| 2014/15 | 19% |
| 2013/14 | 19% |

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

| | <u>Nominal</u> <u>% p.a.</u> | <u>Real</u> <u>% p.a.</u> |
|-----------------------------------|---------------------------------|------------------------------|
| Discount Rate | 5.4 | 2.7 |
| Short Term Pay increases | 2.7 | - |
| Long Term Pay increases | 4.5 | 1.8 |
| Price Inflation/pension increases | 2.7 | - |

Mortality assumptions

| | <u>Males</u> | <u>Females</u> |
|--------------------|--------------|----------------|
| Current Pensioners | 22.1 years | 23.6 years |
| Future Pensioners | 24.0 years | 25.9 years |

Historic mortality assumptions

| <u>Year Ended</u> | <u>Prospective Pensioners</u> | <u>Pensioners</u> |
|-------------------|---|--|
| 31st March 2013 | 2012 Continuous Mortality Investigation (CMI) Model with long term rate of improvement of 1.5% p.a. | 2012 CMI Model with long term rate of improvement of 1.5% p.a. |

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits.

19. Actuarial Present Value of Promised Retirement Benefits

To assess the value of the Fund's liabilities as at 31st March 2015, the fund actuary has rolled forward the value of the Fund's liabilities calculated for the Triennial valuation as at 31st March 2013 allowing for the different financial assumptions required under IAS 19. A similar roll-forward approach was taken for the report as at 31st March 2014.

The full actuarial valuation involved projecting future cash flows to be paid from the Fund and placing a value on them. These cash flows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31st March 2015 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31st March 2015 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information the fund actuary has received there appears no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

The fund actuary has adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31st March 2013. Fund's VitaCurves with improvements from 2010 in line with the Medium Cohort and a 1.5% p.a. underpin.

The assumed life expectations from age 65 are:

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|----------------------|------------------------|------------------------|
| Expectancy | | |
| Retiring today | | |
| - Males | 23.8 | 23.7 |
| - Females | 25.2 | 25.1 |
| Retiring in 20 years | | |
| - Males | 25.9 | 25.8 |
| - Females | 27.6 | 27.4 |

The following assumption has also been made: Members will elect to take 50% of the maximum additional tax-free cash up to HMRC limits.

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows.

| Assumptions as at | <u>31st March 2015</u> | | <u>31st March 2014</u> | | <u>31st March 2013</u> | |
|-------------------|------------------------|---------------|------------------------|-------------|------------------------|-------------|
| | <u>% p.a</u> | <u>Real</u> | <u>% p.a</u> | <u>Real</u> | <u>% p.a</u> | <u>Real</u> |
| RPI increases | 3.2% | - | 3.6% | - | 3.3% | - |
| CPI increases | 2.4% | (0.8%) | 2.8% | (0.8%) | 2.5% | (0.8%) |
| Salary increases | 4.2% | 1.0% | 4.6% | 1.0% | 4.7% | 1.4% |
| Pension increases | 2.4% | (0.8%) | 2.8% | (0.8%) | 2.5% | (0.8%) |
| Discount rate | 3.3% | 0.1% | 4.4% | 0.8% | 4.2% | 0.9% |

These assumptions are set with reference to market conditions at 31st March 2015.

Our estimate of the duration of the Fund's liabilities is 18 years.

The discount rate is the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS 19 and with consideration of the duration of the Employer's liabilities. This approach has been updated from previous disclosures when the yield on the iBoxx AA rated over 15 year corporate bond index was used as a standard assumption for the Fund.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 18 year point on the BoE spot inflation curve. Previously, the 20 year point was used and so this has been updated to reflect the duration of the Fund's liabilities.

This measure has historically overestimated future increases in the RPI and so, in the past we have made a deduction of 0.25% in arriving at the RPI assumption. However, the evidence for this in more recent period is weaker and so we have made no such deductions at 31st March 2015. The RPI assumption is therefore 3.2%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.4%. We believe that this is a reasonable estimate for the future differences in the indices.

Salary increases are assumed to be 1.8% above CPI in addition to a promotional scale year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out above) from those used for funding purposes (see Note 18). The actuary has also used valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31st March 2015 was £1,527 million (£1,306 million in 2013/14).

The net assets available to pay benefits as at 31st March 2015 was £1,207 million (£1,057 million in 2013/14). Therefore the net pension liability as at 31st March 2015 was £320 million (£249 million in 2013/14). The present value of Funded Obligation consists of £1,469 million vested and £58 million in respect of non vested obligation.

20. Current Assets

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|---------------------------------|------------------------|------------------------|
| | £'000 | £'000 |
| Current assets | | |
| Cash | 2,423 | 2,087 |
| Contributions due from employer | 76 | 55 |
| Amount due from HMRC | 81 | 148 |
| Amounts due from Council | 31 | 21 |
| Audit Fee | - | 3 |
| Overpaid pensions | 1 | 2 |
| Total | <u>2,612</u> | <u>2,316</u> |

21. Current Liabilities

| | <u>31st March 2015</u> | <u>31st March 2014</u> |
|--|------------------------|------------------------|
| | £'000 | £'000 |
| Current liabilities | | |
| Unpaid benefits | (775) | (1,023) |
| Fund Managers' fees | (930) | (800) |
| Audit Fee | (24) | (21) |
| Amounts due to Council | - | (3) |
| Amounts due to HMRC | (453) | (410) |
| Admin fee | (31) | (646) |
| Pension due | (8) | (15) |
| Pension due to Estate of deceased pensioners | (3) | (4) |
| Total | <u>(2,224)</u> | <u>(2,922)</u> |

22. Additional Voluntary Contributions

Some staff choose to invest in Additional Voluntary Contributions with the Prudential. Additional Voluntary Contributions are entirely separate from the Council's Pension Fund accounts.

| | <u>Market Value</u> <u>31st March 2015</u> £'000 | <u>Market Value</u> <u>31st March 2014</u> £'000 |
|---|--|--|
| Balance at beginning of the year | 3,158 | 3,267 |
| Investments purchased with AVCs | 607 | 690 |
| Sales of investments to settle benefits due to members | (1,176) | (950) |
| Changes in the value of AVCs (investment income and changes in the market value of investments) | 239 | 151 |
| Balance at end of the year | 2,828 | 3,158 |

23. Related Party Transactions

Wandsworth Council

Wandsworth Pension Fund is administered by Wandsworth Council. Consequently there is a strong relationship between the Council and the pension fund.

The Council incurred costs of £676 thousand (£646 thousand in 2013/14) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The Council is also the single largest employer of members of the pension fund and contributed £31 million to the fund in 2014/15 (£30 million in 2013/14). The pension fund paid benefits to former council employees of £47m in 2014/15 (£42m in 2013/14).

Governance

Committee members Councillors Mr. M Heaster and Mr. J Daley were active members of the pension fund until 26th May 2014. Councillors Mr. P Carpenter and Mr. J Daley are deferred members of the pension fund. Councillor Mr. M Heaster is receiving a pension from the pension fund.

Each member of the Pension Fund Committee is required to declare their interests.

The key officers responsible for the pension fund, Mr. C Buss (Director of Finance and Deputy Chief Executive), Mr. R Claxton (Assistant Director – Pensions and Payroll), Ms C Hollands (Head of Pensions Shared Service) and Mr. P Harris (Pension Fund Controller), are all active members of the scheme. Details of how the scheme benefits are administered can be found at www.lgps.org.uk.

24. Contractual Commitments

There are no outstanding capital commitments (investments) at 31st March 2015 (£nil in 2013/14).

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SECTION 7 - FUNDING STRATEGY STATEMENT

WANDSWORTH COUNCIL PENSION FUND

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Funding Strategy Statement – Purpose

Every local authority that administers a pension fund is required to obtain an actuarial valuation of the assets and liabilities as at 31st March 2004, and every third anniversary afterwards. The main purpose of the valuation is to determine the rate at which the participating employers should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the fund. Revised contribution rates, as certified by the actuary, must be implemented on 1st April of the following calendar year.

The employer contribution rate is the net sum of three elements:

- the future service contribution rate, required to provide for benefits accruing to active members of the fund over the year following the valuation date,
 - the past service adjustment, spreading over a number of years any surplus or shortfall in funding at the valuation date, and
 - an individual adjustment for the employer, if the actuary considers it appropriate to take account of any circumstances peculiar to the employer.
1. Every valuation relies on a number of assumptions to calculate the funding level at the valuation date and the future service contribution rate. A degree of judgement is then required about how the past service adjustment should reflect any surplus or shortfall, and about the need for individual adjustments. Regulation 58 of the Local Government Pension Scheme Regulations 2013 require every local authority that administers a pension fund to prepare, maintain and publish a written statement setting out their funding strategy, addressing these assumptions and judgements. The Council's actuary, when undertaking triennial valuations, must then have regard to this statement.
 2. The purpose of this statement, therefore, is to establish the general strategy for ensuring appropriate assumptions and judgements in valuations of the Wandsworth Council Pension Fund. In particular, the statement should clarify the potentially conflicting legal requirements for the Fund's actuary:
 - a. to specify employer contribution rates that secure the solvency of the Fund on a prudent basis; and
 - b. to have regard to the desirability of maintaining as nearly constant employer contribution rates as possible.
 3. In preparing the funding strategy statement, each authority must have regard to its own Statement of Investment Principles (SIP) and to guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Consultation with all employers participating in the fund is also required.
 4. The first statement must be published by 31 March 2005. It must be revised and published again to reflect any material change in policy or in the SIP. CIPFA recommend that it should be reviewed formally at least every three years, in advance of the triennial valuation.

Pension Fund – Purpose, Aims and Scope

5. The purpose of the Wandsworth Council Pension Fund is to:
 - a. pay pensions, retirement and death lump sums, other scheme benefits, refunds of employees' contributions, transfers of pension rights to other pension schemes, and administration costs,
 - b. from payments of employees' and employers' contributions, payments from other funds in respect of transferred pension rights, and investment income and realisations,in accordance with the Local Government Pension Scheme Regulations.
6. The aims of the Fund are therefore, with a prudent long-term view, to:
 - a. ensure that sufficient resources are available to meet all liabilities as they fall due;
 - b. maximise the returns from investments within reasonable risk limits;
 - c. have regard to the desirability of maintaining as nearly constant employer contribution rates as possible; andenable and assist participating employers to manage their liabilities effectively.
7. The scope of the Fund, in terms of employers and active membership, is almost entirely limited to eligible employees in Council-funded functions, and predominantly direct employees of the Council itself. Wandsworth Council, as the administering authority, has for many years tended to resist the admission to the Fund of other employers, in view of the risk that their liabilities would ultimately fall on the Council. But all Wandsworth schools have a degree of autonomy in their financial affairs that warrants special consultation and consideration about the impact of funding proposals. Academies may be viewed as separate employers as they have financial independence from the Council.

Responsibilities of key parties

8. Wandsworth Council as the Fund's administering authority should:
 - a. collect employer and employee contributions from employers;
 - b. ensure the investment of surplus monies is well-managed in accordance with the regulations;
 - c. ensure that cash is available to meet liabilities as and when they fall due;
 - d. manage the valuation process in consultation with the fund's actuary;
 - e. prepare and maintain a Funding Strategy Statement (FSS) and a Statement of Investment Principles (SIP); and
 - f. monitor all aspects of the fund's performance and funding, and amend the FSS or SIP when necessary.
9. School employers, admitted bodies and Wandsworth Council as employer should:
 - a. deduct contributions from employees' pay correctly;

- b. pay all contributions, including their own as determined by the actuary, promptly by the due date;
 - c. exercise discretions within the regulatory framework;
 - d. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
 - e. notify the administering authority promptly of all changes to membership or, as may be proposed, which could affect future funding.
10. The Fund's actuary should set employer contribution rates at levels that secure solvency, having regard to:
- a. the Fund's existing and prospective liabilities;
 - b. circumstances peculiar to a particular employer or pool of employers;
 - c. the desirability of maintaining as nearly a constant rate as possible; and
 - d. this Funding Strategy Statement.

The actuary also prepares advice and calculations in connection with bulk transfers and individual benefit-related matters.

Fund Investment Policy

11. The investment objectives of the Fund according to the SIP, "to maintain the solvency of the Fund at all times, and to deliver low and stable contribution rates over the long term", support the first three aims of the Fund as stated above.
12. The Fund's investment policy is "to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark approach with the investment manager". Managers are given discretion and are held accountable for stock selection decisions, within parameters, over periods ranging from a few months to a few years. The overall framework for asset allocation is decided by the Council and reviewed periodically.
13. The practical effect of this policy is that the overwhelming majority of the Fund's investments are generally held in equities. As the Fund is still attracting new members and can afford to take a long view, this degree of equity weighting is considered acceptable. It is also considered generally desirable in view of the higher return that may reasonably be expected in the long term from investments carrying higher risk. This expectation is supported by historical analysis showing that equities have out-performed bonds over most, but by no means all, periods.
14. This investment policy, generally resulting in a heavy equity weighting, allows the actuary to include an asset out-performance assumption (AOA) (above the yield on bonds) within the average investment return assumed for fund valuations. The amount of this assumption will be decided for each valuation, having regard to market expectations at the time but with a significant allowance for prudence.
15. The Fund's heavy equity weighting means accepting more volatile valuation results, compared with funds invested largely in bonds. As the Council is virtually the sole participating employer required to publish an annual balance-sheet, and as this balance-sheet is published for stewardship purposes and not to give assurance to lenders, the volatility in the pension reserve shown in the annual balance-sheet is not a concern.

Volatility in triennial valuation results, however, tends to work against “the desirability of maintaining as nearly constant employer contribution rates as possible”. Ways to mitigate this risk are discussed below. The additional risk is considered worth taking in pursuit of the aim to “maximise the returns from investments within reasonable risk limits”, and hence to keep employer contribution rates as low as possible. A move entirely into bonds would markedly reduce volatility, but it would also compel the assumption of lower investment returns and thus require much greater employer contribution rates.

Assumptions, risks and counter-measures

16. There are many risks that could impact upon employer contribution rates. The key risks and the measures that could be taken to counter them are discussed below. Many of these are the subject of assumptions that have to be made in the course of each actuarial valuation. Although these assumptions refer to the long term, the risk for employers potentially crystallises at the next triennial valuation. If the assumptions made at one valuation do not appear to be sustainable three years later, and then have to be superseded by more adverse assumptions, there will be consequential increases in contribution rates. Conversely, substantial prudence at one valuation may be rewarded by a reduction in contribution rates three years later.
17. The main output of the valuation is the employer contribution rates to be paid over many years into the future. So called “marked to market” valuations have the potential to produce quite different valuation results and levels of required employer contributions depending on actual market conditions on the day of the valuation. Thus, to determine the value of liabilities, rather than adopt assumptions based on “spot” yields and market conditions on the actual valuation date, we use the average yields over the 6 month period spanning the valuation date. Similarly in the valuation of assets used for valuation purposes we derive average market values of assets over the same 6 month period. This approach is akin to carrying out daily valuations over a 6 month period and then determining the average valuation result. The purpose of this averaging or smoothing process is to help stabilise levels of employer contributions as required by the Regulations.

Investment Performance

18. As contributions are being invested now to provide for benefits payable in the future (and to make good any deficit), then part of the cost of providing the benefits can be met from investment returns. The higher the rate of return achieved by the assets, the lower the contributions that will be required in future to meet the cost of the benefits. Therefore, a key assumption in any valuation is the anticipated returns from assets in the future.
19. Investment managers may under-perform. Investment markets may perform worse than expected. Market yields may be lower. Actuaries advise there is a substantial probability that equities will underperform bonds even over a twenty-year period. Some of these risks are controlled to some degree by the framework for investment management described in the SIP. The prudent long-term view and the desirability of maintaining as nearly constant employer contribution rates as possible, require the adoption of an AOA with a significant allowance for prudence in order to counter these risks. The allowance will be higher when investment market values are considered to be high.

Pay and Price Inflation

20. Pay growth enhances the future pension benefits of the active members of the Fund. To make the valuation assumption as robust as possible, the actuary has regard to the trend in national real earnings growth, to the experience of promotional increases in local government generally, and to any differences in the recent experience of the Wandsworth Fund. Employers are naturally mindful of the direct effect of pay rises on their budgets and local taxes; they should also be alert to the impact on their pension contributions if pay rises exceed the valuation assumptions, particularly for employees with long periods of service.
21. Annual increases in pensioner and deferred pensioner benefits are linked to price inflation. At each valuation, market expectations of future inflation can be calculated from the difference between the yields on conventional and index-linked government bonds.

Longevity

22. Life expectancy is a key determinant in the valuation of prospective liabilities. The actuarial valuation reflects recent experience of pensioner mortality in the Wandsworth Pension Fund. Mortality investigations over the last few years have concluded that the population across the UK is living longer and that recent improvements have been at a faster rate than seen in the past. However, experience does vary across the country and from Fund to Fund. Over the long term longevity is expected to increase in line with the Actuarial Profession's Continuous Mortality Investigation ("CMI") 2012 projected improvements with a long term rate of 1.5%p.a. The risk of associated additional liabilities emerging at subsequent valuations is one of the factors to be considered when deciding the prudent AOA and the appropriate deficit/surplus recovery period.

Early Retirement Costs

23. The Council ensures due control of all early retirement costs by charging against the revenue account of the employing service a lump sum representing the present value of releasing benefits before the date on which they could have been taken by the employee without reduction. Costs of added years at the time of retirement are treated similarly.

Regulatory

24. Actuarial valuations do not anticipate potential changes to the local government pension scheme or to national pension requirements. But the potential for associated additional or reduced liabilities emerging at subsequent valuations is one of the factors to be considered when deciding the prudent AOA and the appropriate deficit/surplus recovery period.
25. The Council, as employer, takes advantage of opportunities to respond to consultation on proposed changes, taking account of their likely impact on local authority budgets in particular.

Governance

26. The Council has avoided the risks associated with poor communication in multi-employer funds by mostly restricting the scope of the Wandsworth Fund to eligible employees in Council-funded functions.

Employer Contribution Rates

Funding Level

27. The funding level determined in the actuarial valuation is the result of comparing the assets held in the fund with the existing and future liabilities already accrued in respect of the service of fund members up to the valuation date. The prudential target is to achieve 100% funding, with assets and liabilities in balance.
28. When the funding level shows either a surplus or shortfall, the employer contribution rate must include a “past service adjustment”, with a view to restoring balance within a reasonable recovery period.

Surplus and Shortfall Recovery Periods

29. The CIPFA guidance does not prescribe an optimum target period for securing full funding. It notes the need to avoid short-term horizons, provide stability in employer contributions, and to take advantage of the constitutional permanence of local government and the scheme’s statutory status. Where this is thought prudentially appropriate and relevant to local circumstances, the guidance suggests, these considerations would allow longer-term recovery periods for shortfalls than those in the private sector.
30. A funding shortfall implies that employment costs for the workforce have previously been understated, so prudence implies that any shortfall should be recovered within the remaining working-life of the current workforce. The calculation of the average remaining working-life may allow for weighting by compound-interest factors at the rate used for the valuation. Adoption of this recovery period could be reinforced by the desirability of maintaining as nearly constant employer contribution rates as possible: for example, a high proportion of retirements over the subsequent three to nine years would force sharply increasing contribution rates in respect of the remaining workforce, if the valuation assumptions proved sustainable.
31. On the other hand, the desirability of stable contribution rates might support the adoption of a longer recovery period, to the extent that any shortfall were considered attributable to recent unusually adverse volatility in the investment markets that may prudently be expected to reverse before the next valuation.
32. Stable contribution rates are not the only mechanism available to the Council for protecting local taxpayers from the impact of market volatility. Reserves for pension liabilities may be established as soon as market conditions suggest significant adverse impact at the next valuation, and these provisions could be applied to offset the effect of the consequential increase in employer contributions. Other participating employers and schools are also empowered to establish provisions and reserves to have a similar effect within their own budgets. For these employers and for the Council, the scope for such provisions and reserves depends upon the degree of other financial pressures at the time. In the event of the funding level showing a surplus, this should be spread over thirty years on grounds of both prudence and the desirability of maintaining as nearly constant employer contribution rates as possible.

Stepped Contribution Changes

33. Phasing periods will be influenced by the credit worthiness of each employer and be explicitly expressed at each valuation.

Pooling or individual adjustment

34. Generally, the Council expects to have a common contribution rate for all employers, other than transferee admitted bodies and academies, without individual adjustment. However, there are risks that any deficit is not repaid at any point at which the employer ceases to exist, in which case the liability would fall on the Council and be reflected in council tax. In respect of new employers the maximum deficit recovery periods for each employer is restricted according to the period over which the Pension Fund can be assured that an adequate funding stream in respect of that employer would be available. Consequential decisions on pooling of employers together to share liabilities and funding terms are then made to reflect any commonality between employers. The Council reserves the right, however, to require additional contributions when employers take decisions that incur substantially disproportionate liabilities for the Fund.

| Version | Nature of Change | Implemented |
|---------|--|---------------------------------|
| V1 | Initial Creation | April 2005 |
| V2 | Reflecting the 2007 Valuation | April 2008 |
| V3 | Reflecting the 2010 Valuation and a move to risk based outcome modelling | April 2011 |
| V4 | Reflecting the 2013 Valuation and a move to economic rate discount model | April 2014 subject to amendment |

SECTION 8 – STATEMENT OF INVESTMENT PRINCIPLES

WANDS WORTH BOROUGH COUNCIL

PENSION FUND – STATEMENT OF INVESTMENT PRINCIPLES

Page

2 **Background** to the operation of the investment arrangements;

3 **Investment Responsibilities** of the various parties involved;

5 **Fund Liabilities** and how they are represented;

5 **Investment Objectives** adopted for the Fund;

8 **Investments** allowed, their management, any limits imposed, the assessment of risk and realisation;

9 **Investment Risk**

11 **Social, Environmental and Ethical** considerations;

11 **Exercise of Rights** including voting rights; and

11 **Compliance** including details of the Fund's adoption of Myners Principles.

14 **Revisions to the SIP**

This Statement of Investment Principles has been prepared in consultation with the Fund's investment managers, actuary and auditors and on the basis of written advice from the Chartered Institute of Public Finance and Accountancy.

Background

Law

Wandsworth Council's Pension Fund is established in accordance with statute to provide death and retirement benefits for all eligible employees, mainly Council staff. The Council is required to maintain a Fund, invested to meet its liabilities for future pension benefits. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 required the Council to prepare, maintain and publish a written statement of the principles governing their decisions about investments. This has been updated to reflect the requirements of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and Secretary of State guidance issued by CIPFA entitled "Investment Decision Making and Disclosure"

The Council's former Policy and Resources Committee approved the original Statement of Investment Principles on 5th July 2000. Following the adoption by the Council of its new executive arrangements under the Local Government Act 2000, these matters were the responsibility of the General Purposes Committee and the Finance Sub Committee. The previous statement was approved by the General Purposes Committee at their meeting on 21st April 2010. The Council's current executive arrangements place responsibility for pensions matters with the Pensions Committee and this statement was agreed at their meeting on 26th November 2013.

Pensions Committee

The Pensions Committee has responsibility for the monitoring and review of the Statement. It also decides on the investment policies most suitable to meet the liabilities of the Pension Fund. It reports as necessary to the Council, which has ultimate responsibility for investment strategy.

Advice

The Committee obtains and considers advice from the Council's Director of Finance and Finance staff, from the Fund actuary, the investment advisor and the investment managers. The Fund actuary and investment advisor carry out tasks specified in two separate five year contracts, one for undertaking the triennial valuation of the fund and the other for the provision of investment management advice.

Management

The Committee have delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme (LGPS) regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Custody

The Committee have delegated custodian duties to Northern Trust. The custodial services include trade settlement and processing, portfolio reporting, income collection, tax reclaims and cash management.

Transition Manager

The Council have appointed Nomura plc to transition assets when managers change or when rebalancing is required.

Investment Responsibilities

The Pensions Committee are responsible for:

- a. Determining overall investment strategy, ensuring that the Fund is invested in suitable types of investments and sufficiently diversified having regard to its investment objectives;
- b. Ensuring regular review of the Statement of Investment Principles, following its adoption by the Council and modification as appropriate;
- c. Ensuring adequate monitoring of compliance with the Statement;
- e. Appointing investment managers and any external service providers and advisers felt to be necessary;
- f. Maintaining effective arrangements for reviewing on a regular basis investment manager performance against established benchmarks, and being satisfied as to manager expertise and the quality of their internal systems and controls;
- g. Ensuring that shares are voted in accordance with agreed policy.

The Committee are advised by the Council's Director of Finance who is responsible for:

- a. Ensuring compliance with this statement, reporting any breaches to the Committee, and initiating reviews and modification of the statement;
- b. Setting and modifying as required the detailed terms of agreements with investment managers;
- c. Supervising the activities and performance of the investment managers, instructing them as appropriate, and agreeing appropriate strategic asset allocation ranges;
- d. Arranging the appropriate level of external professional support and advice.

The investment managers are responsible for:

- a. The investment of pension fund assets in compliance with legislation, the constraints imposed by this statement and the detailed Investment Management Agreements;
- b. Recommending, as appropriate, changes to the performance benchmarks and strategic asset allocation ranges;
- c. Tactical asset allocation around the benchmarks agreed by the Committee or Director of Finance from time to time;

- d. Stock selection within agreed asset classes;
- e. Preparation of quarterly reports including a review of investment performance;
- f. Attending meetings with the Committee and the Director of Finance as required;
- g. Voting shares in accordance with this statement;
- h. Assisting in the reviews of this statement;
- i. Providing the monthly accounting data summarising details of all investment transactions during the quarter;
- j. Providing investment transaction details in a timely manner for performance measurement purposes.

The Actuary is responsible for:

- a. Undertaking a triennial valuation of the Fund's assets and liabilities;
- b. Providing advice on the maturity of the Fund and funding level in order to assist in balancing the short and long-term objectives of the Fund;
- c. The Actuary provides actuarial services under a five year contract let by the Council to the Actuary following a competitive tendering process.

The Investment Advisor is responsible for:

- a. Assisting the Committee and the Director of Finance in their monitoring of investment managers' performance, in the selection and appointment of new managers, setting appropriate performance benchmarks and strategic asset allocation ranges;
- b. Assisting in the reviews of this statement;
- c. Investment advice to the Council through a five-year contract let by the Council following a competitive tendering process.

Fund Liabilities

Scheme Benefits

Wandsworth Council's Pension Scheme is a defined benefit scheme which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing Benefits

All active members are required to make pension contributions based upon a fixed percentage of their pensionable pay as defined in the LGPS regulations and currently set between 5.5% and 12.5% dependent upon pay levels.

The Council (or other employer where applicable) is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary. The Council has a direct financial interest in the investment return achieved on the Fund's assets.

Actuarial Valuation

The Fund is valued every three years in accordance with the LGPS regulations and monitored each year in consultation with the actuary.

Investment Objectives

The investment objectives of the Fund are to maintain the solvency of the Fund at all times, and to deliver low and stable contribution rates over the long term.

Investment Management Strategy

The investment management strategy is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with the investment manager. The Council has adopted an approach that employs specialist active managers plus a passive manager in order to give diversification and spread of risk.

Strategic Asset Allocation Ranges

The investment advisor recommends changes in the strategic asset allocation ranges from time to time. They are subject to approval by the Committee or the Director having regard to the estimated liability profile of the Fund's membership and the need for diversification of the Fund's assets to reduce risk. The investment advisor's recommendations are expressed in terms of percentage allocations to various asset classes and geographical markets.

The table below shows the asset allocation proportions and tolerances around which no rebalancing would occur:

| Asset Class | Benchmark Allocation % | Tolerance Range % |
|---------------------------|-------------------------------|--------------------------|
| UK Equities | 37.5 | 32.5 – 42.5 |
| Overseas Equities | 37.5 | 32.5 – 42.5 |
| Corporate Bonds | 15.625 | 10.625 – 20.625 |
| Index Linked Gilts | 9.375 | 4.375 – 14.375 |
| Total | 100.0 | |

In order to minimise trading costs any rebalancing is limited to the mid-point of the difference between the benchmark allocation and the relevant boundary of the tolerance range.

The Director of Finance will monitor these tolerances monthly and is delegated authority to rebalance within these guidelines.

Exceptionally, there may be market conditions that dictate against this rebalancing strategy being implemented or the pace at which rebalancing occurs and the Director of Finance is authorised to depart from this strategy if he deems that circumstances indicate a departure.

Rebalancing decisions would also take account of any liquidity effects.

Any rebalancing activity or departures from the strategy would be reported to the next meeting of the Pensions Committee.

Reporting

The investment managers' current investment decisions and actions are reported monthly to the Director of Finance. Summaries of these and of managers' performance are reported at least annually to the Pensions Committee, and more frequently when required.

Performance Benchmarks

Performance targets are set on a three-year rolling basis in relation to the benchmark. Managers have been set a target to achieve a return as follows:

| Mandate Manager/Benchmark % of Fund | Benchmark & Target |
|--|---|
| Global Equities Baillie Gifford 13% | MSCI All Countries World Index - + 2% p.a. net of fees |
| Global Equities Longview Partners 15% | MSCI World Index - + 2% p.a. net of fees |
| Global Equities -RCM 14% | MSCI World Index - + 2% p.a. net of fees |
| UK Equities -River & Mercantile 13% | FTSE All - Share - + 2% p.a. net of fees |
| Bonds – Rogge 21% | <ul style="list-style-type: none"> ➤ 75% IBOXX All Stocks Corporate Bonds ➤ 25% FTSE Actuaries Govt Securities Index – Linked > 5 years <p>To achieve a total net return of 1.5 % per annum (after fees) greater than total return of the above benchmarks.</p> |
| Passive multi-asset - UBSGAM 24% | <ul style="list-style-type: none"> ➤ 85% FTSE All Share ➤ 15% FTSE Actuaries Govt Securities Index – Linked > 5 years <p>To achieve a total return of at least equal to the total return of the above benchmark.</p> |

Investments

The powers and duties of the Council to invest Fund monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Council is required to invest any monies which are not required to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investment and the advice of persons properly qualified on investment matters.

Types of Investments

In broad terms, investment may be made in accordance with the regulations in equities, fixed interest and other bonds, and property, in the UK and overseas markets. The Regulations specify other investment instruments that may be used, e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

The Regulations also specify certain limitations on investments.

Investment Management Limitations

The investment managers are required to recommend a suitable asset mix to take account of performance targets, cash needs and risk tolerances, and the appropriate types of investment as defined in the Regulations and each manager's investment management agreement. Any restrictions imposed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) are incorporated into investment management agreements. Their investment decisions are then constrained by the agreed strategic asset allocation ranges.

No more than 35% of the total value of the Pension Fund can be invested in UBSGAM life funds. This limit applies to enable the fund to invest in a wide variety of investments; and for the manager to decide on the suitability of particular investments and types of investments. The extension of this limit complies with the 2009 Regulations.

Stock lending is not permitted in segregated portfolios.

Investment Risk

Market risk – The strategic asset allocation ranges are determined recognising the Fund's overall risk tolerance in relation to investment objectives. Each manager is expected to maintain a diversified portfolio of investments within their agreed asset ranges.

Performance risk – Performance benchmarks are used and performance is monitored relative to the targets set over a rolling three-year period. This is to ensure that the investment manager does not deviate significantly from the intended approach, while permitting flexibility to manage the portfolio and enhance returns over the longer term. The appointment of more than one manager diversifies manager related performance risk.

Controlling risk – Risk diversification supports the decision to appoint a number of managers with specifically tailored mandates. The degree of risk to which the individual portfolios are exposed is also monitored.

Funding risk - Assets may increase at a lower rate than the liabilities, resulting in a deteriorating funding position. The Council's Funding Strategy Statement (FSS) is reviewed every three years as part of the triennial valuation. More frequent reviews have previously been undertaken but only when market conditions dictate that long-term liability assumptions require immediate revision.

Financial mismatch risk - Assets and liabilities have different sensitivities to changes in financial factors, in particular inflation and interest rates. In the shorter-term it is accepted that a mismatch between liabilities that increase with service and pay growth will not necessarily correlate to stock market performance. However, the Council has set an investment strategy that provides exposure to a mixture of assets, mainly equities and Bonds, which are expected to meet the liabilities over the long-term.

Liquidity/Cashflow Risk - A shortfall in liquid assets or eligible collateral relative to short term liabilities (e.g. pension payments) could create the risk of selling assets at an unreasonably low price to fund these payments. The Pension Fund is cash positive with income from contributions, dividends and interest being significantly in excess of expenditure,

so that cash reserves are normally sufficient to meet any payments. Additionally the Council will ensure that all future payments can be met and that sufficient assets are held in liquid investments (realisable in three months or less) or in eligible collateral, such as government bonds.

Manager Risk - Fund managers could fail to achieve the investment returns specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the officers and the relevant Council Committee as part of the manager monitoring process.

Concentration Risk - This refers to the risk that the performance of a single asset class or investment has a disproportionate influence on the Council's ability to meet its investment objectives. The Council mitigates this risk by establishing a well diversified asset allocation, between managers, asset classes and territories. Reviews of the investment strategy are made as and when appropriate.

Counterparty Risk - This describes the risk of the other party in a financial transaction (the counterparty) failing to meet its obligations to the Fund (e.g. because of a default event). The Council has set guidelines with its fund managers and its custodian to limit its exposure to default risk. It also forbids stock lending to mitigate counterparty risk in these transactions.

Currency Risk - A global asset allocation with sterling liabilities exposes the Fund to fluctuations in exchange rates that may affect the value of its investments. The Council has not established a currency hedge for the global equity portfolio to dampen the effect of foreign currency fluctuations against sterling. Many of the top UK companies derive significant proportions of their earnings from overseas and currency hedging involves taking a view about the future direction of currency movements. Additionally, currency rates are affected by many short to medium term factors, but in the long-term are expected to reflect value. Accordingly currency hedging is not undertaken.

Social Environmental and Ethical Considerations

The Council has a paramount fiduciary duty to obtain the best possible financial return on the Fund investments against a suitable degree of risk. It also considers a company's 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 the company and improve investment returns to its shareholders.

The 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 considering the acquisition, retention or realisation of investments for the Fund. In the execution of this, the Pensions Committee have considered and found it appropriate to adopt the investment managers' socially responsible investment policies. These policies will be reviewed with the investment managers regularly both by officers and the Pensions Committee.

Exercise of Voting Rights

Managers have been instructed to follow the National Association of Pension Funds (NAPF) voting guidelines.

Compliance

The Pensions Committee and the Director of Finance are responsible for monitoring the qualitative performance of the investment managers to ensure that they remain suitable for the Fund. These qualitative aspects include ownership, personnel, investment administration, and compliance with this statement.

The Pensions Committee and the Director of Finance will regularly check compliance with this Statement of Investment Principles.

The Pensions Committee and the Director of Finance have considered the extent to which investment policy and practice complies with the six investment principles issued by the Government following the publication of the “Review of Investment in the United Kingdom” undertaken by Paul Myners. The Council’s compliance with these principles together with descriptive text, where required is set out below:

Principle 1 – Compliant - The Council should ensure that:

- (i) decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- (ii) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Principle 1 requires that decisions are taken by persons with the skills knowledge, advice resources to make them effectively. CIPFA have produced a knowledge and skills framework to complement the statutory guidance, one for officers and the other for elected members sitting on Pensions Committees. They are entitled “Pensions Finance – Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executives in the Public Sector” and “Pensions Finance – Knowledge and Skills Framework - Technical Guidance for Pensions Practitioners in the Public Sector”. The Council has adopted these frameworks.

Principle 2 – Compliant - An overall investment objective(s) should be set for the fund that takes account of the scheme’s liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

The Council will have regard to asset/liability models, effects on taxpayers, cash flow requirements and the maturity profile of the Fund when setting the investment strategy. This will require advice from officers, the actuary and investment advisor.

Principle 3 – Compliant - In setting 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, and the risk of their default and longevity risk.

Following each triennial valuation the actuary reports on the structure of liabilities and if necessary, amendments to the investment strategy will be considered. A report will be prepared by the Director of Finance if this is required. Whilst the fund's aspiration is that active managers will outperform their benchmarks, allowances must be made for periods of under performance in the short term, while delivering good performance over the long term. The overall objective for the fund is that growth in the global economy, available mainly from investing in equities, should meet the asset out-performance assumption that discounts the value of liabilities and while manager performance is measured in relation to relevant indices this is to measure relative success of each manager, rather than being an objective for the fund as a whole.

Principle 4 – Partially Compliant - Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisors. The Council should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Performance of the fund and fund managers is monitored monthly by officers and all fund managers are held to account via quarterly meetings with officers. Elected members meet all managers annually to review performance.

The independent investment advisor is subject to a contract for services which contains relevant quality controls. Outcomes on asset allocation advice, being long-term in nature, are unlikely to be capable of quantitative analysis until many years after the contract for service has ended. Nonetheless, poor performance of the fund, even over the short term, will require analysis and explanation of the reasons, including accountability, and recommended actions, if any, to improve long-term outcomes.

Officers and elected members receive regular information that indicates whether previously agreed policies and decisions require change. This approach focuses on outcomes rather than relying on subjective self assessment. The Council prefers the outcome based approach and accordingly is not fully compliant on making a formal policy assessment of their own effectiveness as a decision-making body.

Principle 5 – Partially Compliant - The Council should:

- (i) adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents;
- (ii) include a statement of the scheme's policy on responsible ownership in the statement of investment principles; and
- (iii) report periodically to scheme members on the discharge of such responsibilities.

The Council has instructed managers to follow the National Association of Pension Funds voting instructions. As the NAPF is a founding member of the ISC, voting decisions should correlate to the principles. However, the ISC has recently replaced the principles with a Code that is being considered by the Financial Reporting Council and accordingly future consideration should be given to adoption of the Code once it is ratified rather than the now, dated, principles.

Principle 6 – Compliant - The Council should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks,

including performance against stated objectives. The Council should provide regular communication to scheme members in the form they consider most appropriate.

Fully Compliant - Details of the Fund's Communication Policy Statement and all other reports which form the suite of annual report documentation are published on the website at <http://www.wandsworth.gov.uk/pensions>

Revisions to SIP

| Version | Nature of Change | Implemented |
|---------|--|----------------|
| V1 | Initial Creation | July 2000 |
| V2 | Prohibits use of Futures and Options | November 2000 |
| V3 | Adoption of NAPF Voting Policy | March 2001 |
| V4 | New Council Committee Structure | March 2002 |
| V5 | Details of Compliance with Myners Principles | September 2002 |
| V6 | End of soft commission relaxation of Pooled Fund limits | March 2003 |
| V7 | Change in UBSGAM target on transfer of Funds to them from DeAM | October 2003 |
| V8 | Local Authority average Pension Fund as Performance Benchmark | January 2006 |
| V9 | New Investment Regulations and Guidance from CIPFA | April 2010 |
| V10 | New Manager Structure – Asset Allocation Rebalancing | January 2011 |
| V11 | Change to UK/Overseas Equity split and to Rogge benchmark | January 2013 |
| V12 | Change of Manager - Asset Allocation Rebalancing | November 2013 |

SECTION 9 - COMMUNICATIONS POLICY STATEMENT

1. The Council is required by regulation 61 of the Local Government Pension Scheme Regulations 2013 to maintain and publish a communications policy statement. The regulations are reproduced below : -

“Statements of policy concerning communications with members and Scheme employers

61. —(1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with

- (i) members;
- (ii) representatives of members;
- (iii) prospective members; and
- (iv) Scheme employers

(2) In particular the statement must set out its policy on

- (i) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (ii) the format, frequency and method of distributing such information or publicity; and
- (iii) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).”

2. Who We Communicate With

- (i) Scheme Members (Current, Deferred, Pensioner, Dependant)
- (ii) Representatives of Scheme Members
- (iii) Prospective Scheme Members
- (iv) Departmental Personnel Sections and Service Managers
- (v) Employing Authorities

3. Methods of Communication – Scheme Members and Prospective Members

(a) Scheme Literature

A Scheme booklet is given to all employees on commencing employment. Changes in the Scheme regulations are notified to all members via regular newsletters. The Scheme booklet is updated to take account of Scheme changes. The Scheme booklet is available on the Council’s website, from the member’s departmental Personnel Section or employer and direct from the Pensions Service.

(b) Website/Information Technology

The Council's website (www.wandsworth.gov.uk/pensions) includes web pages for Scheme members. The pages hold details of the Scheme together with Service Charters, newsletters and forms. The Service can be contacted by email at pensions@wandsworth.gov.uk. Scheme information is also available online via the Local Government Employers' Organisation's national website at www.lgps.org.uk and www.lgps2014.org. Access to the Scheme regulations is available at the Pension Service office or online using the Employers' Organisation's website at <http://www.local.gov.uk/web/lgaworkforcepensions/home>. Newsletters for current members are distributed by email with hard copies available on request.

(c) Member Support

Members can contact the Pensions Service by using direct dial telephone numbers between 9:00am and 5:00pm Monday to Friday. The Service operates an "open-door" policy where members may visit the office between 9:00am and 5:00pm Monday to Friday without a pre-arranged appointment.

The Service also offers pre-arranged appointments between 7:30am and 6:30pm Monday to Friday. The Pensions Service undertakes training on behalf of the Council's Learning and Development Centre by way of lunchtime seminars that give an overview of the Scheme. Attendance on these seminars is open to all Council employees. The Service also plays a major role in the Planning for Retirement courses. These courses are available through the Council's Learning and Development Centre. Seminars are also arranged by individual Departments and form part of the departmental employee induction program.

(d) Alternative Requirements

All newsletters invite members to contact the Service if they wish to receive information in a non-standard format (for example large print, Braille or on audiotape). Scheme information is available on audiotape. This includes the Scheme booklet, all newsletters and Service Charters as standard. The Service has access to transcription, translating and interpreting services if required. Correspondence to members is sent in increased font sizes according to individual members' requests.

(e) Benefit Statements

Active and deferred members are sent annual benefit statements.

(f) Pay advice slips / P60s / Pensions Increase

Pay advice slips are provided to pensioner members monthly and a form P60 is sent annually. Pensioner members are sent a letter annually with details of the new amount of pension following the yearly Pensions Increase. Pensioner members receive newsletters twice a year.

(g) Report and Accounts

The Pension Fund Annual Report is produced and available to all members at www.wandsworth.gov.uk/pensions. The availability of the report is notified via newsletters included the offer of a paper copy on request. The report includes details of

the Pension Fund Accounts, the Pension Fund investment performance, the Council's policies on Governance, Investment Principles, Funding Strategy and Communications Statement.

(h)Performance Monitoring

The Pensions Service is committed to continuous service improvements. The Service monitors its performance monthly. Performance achievements are published in the annual Business Plan, newsletters, Pension Fund Annual Report and as an addendum to the Service Charters. The Service Charters, Business Plan, Pension Fund Annual Report and newsletters are available on the Council's website.

Communicating with Representatives of Scheme Members

The range of information and ways of communicating that is available to Scheme members is also available to their representatives (with the exception of in-house training).

Communicating with Prospective Scheme Members

The range of information and ways of communicating that is available to Scheme members is also available to employees who are not currently members of the Scheme but may be considering joining (including the in-house training).

Communicating with Employing Authorities

The Council is the main employer however Council schools have some independence. The Pensions Service provides a Schools Procedure manual to assist schools in carrying out their statutory duties. The Service also offers training for School Administrative Officers or Bursars/Finance Officers and undertakes visits. The full range of Scheme information is provided. The Pensions Service contributes to the Children's Services Department schools newsletter "News and Views" and uses the departments Info for Schools intranet when required. For a summary of the Communication Material see page 114.

Communications Policy Statement 2014/2015 Review

In accordance with regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008, the Council's Communications Policy Statement has been reviewed as part of the production of this report. There are no material changes to the Council's policy statement.

The Pensions Service issued newsletters to pensioners in April and deferred members in November. Information contained in the newsletters included legislation changes, details of the proposed changes to the LGPS in the future, notification of increases to pensions, reports on our performance, complaints and costs and notified the production of the Pension Fund Annual Report for 2013/2014 amongst other things.

Pensioner Members received monthly pay advice slips and a P60 in April. Annual Benefit Statements were issued to active and deferred members in October.

The new LGPS 2014 was introduced and both member and employer, payroll and HR seminars carried out.

The Pension Fund Annual Report was completed and presented to the Pensions Committee in September.

Summary of Communication Material

| Communication Document | When Made Available | Available To | Format | When Reviewed |
|--|--|--|---|-----------------------------------|
| Employees' Guide – Local Government Pension Scheme Guide | Before commencing employment / On leaving / When requested | Prospective / Active / Deferred members | Paper / Member's Website / Intranet / Audiotape | As regulations change or annually |
| Joining the LGPS – Other Pension Rights | Before commencing employment / When requested | Prospective / Active Members | Paper / Member's Website / Intranet | As regulations change or annually |
| Service Charter - Current Members | Before commencing employment / When requested | Prospective / Active members | Paper / Member's Website / Intranet / Audiotape | Annually |
| Service Charter - Deferred Members | When ceasing scheme membership / When requested | Deferred members | Paper / Member's Website / Intranet / Audiotape | Annually |
| Service Charter – Pensioners Charter | When Pension Commences / When requested | Pensioner members | Paper / Member's Website / Intranet / Audiotape | Annually |
| Leaving Pensionable Employment – A Guide to Your Pension Options | On leaving the Scheme before retirement age | Active / Deferred members | Paper / Member's Website / Intranet | As regulations change or annually |
| Pay Advice Slips | Monthly | Pensioner Members | Paper | Annually |
| Form P60 | Annually | Pensioner Members | Paper | Annually |
| Newsletters | Biannually / As required by Regulations | Prospective / Active / Pensioner Members | Paper / Member's Website/ Intranet / Audiotape | Biannually / As required |
| Pensions Service Annual Business Plan | On Request | All | Paper / Member's Website/ Intranet | Annually |
| Statutory Statements | On Request | All | Paper / Member's Website/ Intranet | Annually / As required |
| Pension Fund Report and Accounts | Annually | All | Paper / Member's Website / Intranet | Annually |
| Schools Employers' Manual | On becoming an employing authority / When requested | Employing Authorities | Paper/Intranet | Annually |

National Fraud Initiative reports

| NFI 2012 | | | | |
|-----------------|---|-------------------------|---|---------------------|
| Report Number | Name of Report - Categories Matched | Number of Cases Matched | Pension Suspended or Abated as a Result of NFI Notification | Identified as Fraud |
| Report 52 | Wandsworth Pensioners recorded with DWP as Deceased | 79 | 5 | 0 |
| Report 53 | Wandsworth Deferred Pensioners recorded with DWP as Deceased | 9 | N/A | 0 |
| Report 54 | Wandsworth Pensioners with another post on Wandsworth Payroll | 48 | 0 | 0 |
| Report 55 | Wandsworth Pensioners with another post on another Local Authority Payroll | 36 | 0 | 0 |
| Report 56 | Other LA Pensioners with Post on Wandsworth Payroll | 0 | 0 | 0 |
| Totals | | 172 | 5 | 0 |
| Comments | | | | |
| Report 52 | 74 of these cases had already been notified to the Pensions Service by next of kin or the deceased's Bank - the remaining 5 cases were immediately suspended until contact from the next of kin. | | | |
| Report 53 | Following the NFI notification, we contacted the last known addresses and local register offices for confirmation of death. We have had contact from next of kin in 2 of these cases. | | | |
| Report 54 | Of the 48 matches, 34 are members to whom the LGPS abatement rules do not apply: 24 members who have flexibly retired; 6 receiving dependent's pensions and 4 former members of the Teachers Pensions Scheme. The remaining 14 retired members' earnings have not triggered any reduction to their pensions. | | | |
| Report 55 | Of the 36 matches, 15 are members to whom the LGPS abatement rules do not apply: 5 receiving dependent's pensions, 7 former members of the Teachers Pensions Scheme, 2 Councillor members and 1 Pension Credit Member. 2 members' pensions had already been abated by the Pensions Service and of the remaining 19 retired members their earnings have not triggered any reduction to their pensions. | | | |

| NFI 2014 | | | | |
|---------------|---|-------------------------|---|---------------------|
| Report Number | Name of Report - Categories Matched | Number of Cases Matched | Pension Suspended or Abated as a Result of NFI Notification | Identified as Fraud |
| Report 52 | Wandsworth Pensioners recorded with DWP as Deceased | 59 | 4 | 0 |
| Report 53 | Wandsworth Deferred Pensioners recorded with DWP as Deceased | 13 | N/A | 0 |
| Report 54 | Wandsworth Pensioners with another post on Wandsworth Payroll | 78 | 0 | 0 |
| Report 55 | Wandsworth Pensioners with another post on another Local Authority Payroll | 30 | 0 | 0 |
| Report 56 | Other LA Pensioners with Post on Wandsworth Payroll | 0 | 0 | 0 |
| Totals | | 180 | 4 | 0 |
| Comments | | | | |
| Report 52 | 55 of these cases had already been notified to the Pensions Service by next of kin or the deceased's Bank - the remaining 4 cases were immediately suspended until contact from the next of kin. | | | |
| Report 53 | Following the NFI notification, we contacted the last known addresses and local register offices for confirmation of death. We have had contact from next of kin in 4 of these cases. | | | |
| Report 54 | Of the 78 matches, 39 are members to whom the LGPS abatement rules do not apply: 7 members whose employment in their current post commenced before retirement; 24 members who have flexibly retired; 6 receiving Councillor's pensions and 2 former members of the Teachers Pensions Scheme. The remaining 39 retired members' earnings have not triggered any reduction to their pensions. | | | |
| Report 55 | Of the 30 matches, none of the members' earnings have triggered any reduction to their pensions. | | | |

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