



CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Tuesday 23rd August, 2016**, Room 12 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP.

Members Present: Councillor Peter Cuthbertson (Chairman and Employer Representative), Dr Norman Perry (Vice-Chairman and Scheme Member Representative), Marie Holmes (Employer Representative) and Susan Manning (Employer Representative).

Officers Present: George Bruce (Tri-Borough Director of Treasury and Pensions), Nikki Parsons (Pension Fund Officer), Joanne Meagher (Head of Operational People Services), Kim Edwards (Senior Payroll, Pensions and Establishment Adviser) and Toby Howes (Senior Committee and Governance Officer).

Apologies for Absence: Councillor Adnan Mohammed (Employer Representative) and Christopher Smith (Scheme Member Representative).

1 MEMBERSHIP

- 1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

- 2.1 There were no declarations of interest.

3 APPOINTMENT OF CHAIR AND VICE CHAIR FOR THE 2016/17 MUNICIPAL YEAR

3.1 RESOLVED:

That Councillor Peter Cuthbertson and Dr Norman Perry be appointed as Chairman and Vice Chairman respectively for the 2016/17 municipal year.

4 MINUTES

- 4.1 That the minutes of the meeting held on 10th May 2016 be signed by the Chairman as a correct record of proceedings.

5 MINUTES OF PENSION FUND COMMITTEE

- 5.1 The Board noted that the Minutes of the last Pension Fund Committee meeting held on 21st June 2016 would be circulated separately.

6 PENSION BOARD ANNUAL REPORT

- 6.1 Nikki Parsons (Pension Fund Officer) presented the Pension Board Annual Report 2015/16 which she advised was required under the Board's terms of reference. She explained that the report provided an overview of the Board's activities and compliance with its terms of reference. Nikki Parsons advised that the report would be put before the Pension Fund Committee for noting, prior to submission to Full Council on 9th November 2016. She then referred to the activities undertaken by the Board over the course of 2015/16. This included undertaking focused reviews on different sections of the Pension Fund Risk Register, reviewing benchmarking of costs and fees incurred by the Fund and looking at both internal and external audit arrangements. Nikki Parsons stated that pooling of assets to the London Collective Investment Vehicle (CIV) and the results of the 2016 triennial valuation would be amongst the significant matters for the Board to consider in 2016/17, as well as seeking to assist and constructively challenge the Council, as the administering authority, in continuing to deliver effective management of the Pension Fund Scheme. She then referred to the training undertaken by Board Members to date as set out in Appendix B of the report.
- 6.2 During discussions, Members welcomed the report and requested that the attendance of Board Members at Pension Fund Committee meetings be included in the report. Members enquired whether the Board would have the opportunity to discuss the 2016 triennial valuation with the Fund's actuary.
- 6.3 In reply, Nikki Parsons advised that the Fund's actuary would be invited to the Board's meeting on 27th February 2017 to discuss progress on the 2016 triennial valuation and she agreed to add this item to the Board's Work Plan. She added that the report sought approval to delegate any further changes and approval of the report to the Chairman in consultation with George Bruce (Tri-Borough Director of Treasury and Pensions).
- 6.4 **RESOLVED:**
1. That the contents of the report be noted.
 2. That it be noted that the report will be sent to the Pension Fund Committee to be noted prior to submission to Full Council; and
 3. That authority be delegated to the Chairman and the Tri-Borough Director of Treasury and Pensions for any further changes and approval of the report.

7 RISK REGISTER REVIEW

- 7.1 George Bruce presented the item and began by focusing on the first risk identified by the Board for consideration: Funding – Inflation and Interest Rates Assumed in the Valuation are Inaccurate (risk 4). He advised that final salary pensions were uprated at an average (effective) rate of 1.3% per annum for the three years 2014 – 2016, with the pension increasing by 2.7% in 2014 and 0% in 2016. This compared to the assumed increase of 2.7% per annum from the 2013 triennial valuation, meaning that liabilities had increased less than had been assumed, which would help the funding position. However, George Bruce advised that liabilities could be higher in subsequent years and the Fund's actuary would be taking into account inflation when considering the 2016 triennial valuation. The actuary would also factor in the financial markets and the activities of the Bank of England.
- 7.2 George Bruce advised that the 2013 triennial valuation had used a discount rate of 5.9% per annum for scheduled bodies and a lower discount rate for admission bodies to reflect their lower level of credit quality. However, most recent reports projected a higher value of the Fund's assets than that projected in 2013, with an estimated return over the three year period of 6.9%.
- 7.3 Turning to the second risk, Funding – Scheme Members Live Longer Than Expected (risk 6), George Bruce advised that life expectancy overall was rising. The 2013 triennial valuation had observed that life expectancies in the previous decade had increased more quickly than most predictions and so the assumption adopted for this valuation gave a long term rate of improvement for mortality projection of 1.5% per annum, equivalent to 1.5 years additional life expectancy every decade. However, there were recent indications that improvements in life expectancy were stabilising or slowing.
- 7.4 During discussions, Members sought further details in respect of the most recent indications that increases in life expectancy were stabilising or slowing. The Chairman asked about the degree of likelihood that the assumed inflation and interest rates were correct and whether there was a reasonable prospect that these estimates would be reduced as the figures seemed high. He suggested that there be a description of what the numbering and grading related to in terms of the level of risk be included in the Risk Register. Members noted that inflation rates could have a significant impact upon the Fund. A Member commented on the limited impact the mitigating actions would have in respect of risk 4 and risk 6.
- 7.5 In reply to the issues raised, George Bruce advised that as well as increases in life expectancy appearing to be stabilising or slowing down, surveys of longevity were now able to be tailored to specific areas, such as by postcode, and were more exact. The Fund's actuary's longevity team were due to carry out an analysis of mortality experience over the last few years and produce a full report of its findings. George Bruce advised that it was almost certain that the assumed inflation and interest rates would not be absolutely correct and that it was preferable to take a more prudent approach to assumptions, as otherwise contributing employers could be at risk of greater costs in future years. However, the Fund had a relatively high proportion of equity assets and a drop in value of these would have a high impact on the Fund and would outweigh other factors such as assumed interest and inflation rates. George

Bruce stated that efforts would be made to define 'likelihood' and 'impact' in the Risk Register. He added that impact was not just measured in terms of monetary values but also other factors, such as the number of scheme members affected.

7.6 Nikki Parsons stated that the nature of strategic risks, such as risk 4 and risk 6, meant that there was only so much mitigating actions could do. She added that the Risk Register is originally derived from a tri-borough management approach, however efforts would be made to make the Risk Register more Westminster Pension Fund specific.

7.7 Members requested that Risk 12, Operational Governance: Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves; and Risk 23, Operational Administration: Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints, be considered at the next meeting.

7.8 **RESOLVED:**

That contents of the report be noted.

8 SURREY PENSION ADMINISTRATION PERFORMANCE - KEY PERFORMANCE INDICATORS UPDATE

8.1 Joanne Meagher (Head of Operational People Services) presented the report and began by stating that due to a combination of issues, the service standards for pension administration had fallen in 2015/16. Some of the reasons for these involved external factors outside the control of the pension administrator, Surrey County Council. One of the main contributing factors was the BT contract for the Managed Service Programme with the Council's tri-borough partners that combined Human Resources, Payroll and Finance services and had gone live on 1st April 2015. Amongst the problems experienced with the contract included staff being paid incorrectly or having pension deductions either being calculated incorrectly or not being deducted on all qualifying earnings. BT had initially been unable to cope with the number of pension queries in the first six months of the contract and this had led to staff contacting Surrey County Council's Pensions Team directly and distracting from their work. In addition, there was a lack of pensions interface to upload information for starters in the scheme, meaning that staff were having to manually upload the information which slowed responses to scheme members' queries.

8.2 Joanne Meagher informed Members that the Surrey County Council Pensions Team had also been affected by staff sickness and it had been difficult to replace staff with sufficient technical knowledge on a temporary basis. Additional pressure had also been placed on Surrey County Council when they had taken on bi-borough pension administration work for Hammersmith and Fulham and Kensington and Chelsea boroughs in September 2015.

- 8.3 Joanne Meagher advised that the Council had made Surrey County Council aware that improvement was necessary, and Surrey County Council had since implemented a new phone system to improve customer access, whilst they had also recruited more staff to help improve the service. However, the key performance indicators (KPIs) from the first four months of 2016-17 financial year showed that only 67% of those retiring were receiving their option forms in time which could lead to the first pension payments being made late. Joanne Meagher advised that officers were continuing to work with Surrey County Council and BT and meeting with them regularly to move things forward and an Improvement Plan was in place. She added that the Council's auditor, Grant Thornton, was due to audit the Fund's administration service in August/September 2016 and officers had requested to include a review of case management focussing in part on retirements.
- 8.4 In noting the long term sickness problems experienced by the Surrey County Council Pensions Team, Members asked whether any steps could have been taken in avoiding this when staff had been recruited and were there any measures in place to help maintain the service when staff were absent. It was enquired whether the KPI figures applied to the Council only or all participating organisations in the scheme, including admitted bodies. Members asked if there was a timeline by which officers expected the pension administration performance to be up to the desired standard and had Surrey County Council taken on too much when it had taken over pension administration services for the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith and Fulham too.
- 8.5 In reply to the issues raised by Members, Joanne Meagher advised that she was not aware of any historical health issues in respect of the Surrey County Council Pensions Team, however she acknowledged that officers could ask Surrey County Council what measures are in place to prevent the service being impacted adversely where staff were on long term absence. She confirmed that the KPI figures included members from all organisations participating in the pension scheme. Issues continued to be experienced in the pension administration service, however BT was now presenting more relevant information and the Improvement Plan was scheduled to be completed by March 2017. Close monitoring of performance would continue to take place and there would be a further review of progress with Surrey County Council in six months' time. Joanne Meagher acknowledged that Surrey County Council had been presented with a considerable challenge when it had taken over the pension administration service for the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith and Fulham. She commented that BT was aware that it was currently not performing to the desired level, however it had given the impression that it was determined to improve.
- 8.6 Kim Edwards (Senior Payroll, Pensions and Establishment Adviser) added that officers were currently largely manually inputting details of staff who were retiring, and officers from Westminster City Council were also assisting with this. However, this would no longer be necessary once the appropriate interface with BT was in place.

- 8.7 The Chairman requested that this item become a standing item on the agenda at subsequent Board meetings and that the reports include up to date data, including data on retirement options.

9 ANNUAL BENEFIT STATEMENT TIMELINE 2016

- 9.1 Joanne Meagher presented the report and advised that Pension Scheme members were entitled to receive their annual benefit statements by 31st August for the previous financial year. She advised that progress was largely on track, however there were some cases where more work needed to be undertaken. The Board noted that this would be the last year that printed annual benefit statements would be sent to pension scheme members.

10 STRUCTURE OF FEES AND COSTS

- 10.1 George Bruce presented the report and advised Members of the findings of the Department for Communities and Local Government's benchmarking costs exercise. He drew Members' attention to Table A on the report comparing Local Government Pension Scheme (LGPS) administration fund costs for inner and outer London boroughs, metropolitan authorities, English shire authorities and other English local authorities. George Bruce advised that there was a lack of consistency in what costs local authorities included as there had been an element of self-selection in the process. He felt that Westminster had taken a conservative approach by including more costs than a number of other local authorities. However, Westminster's administration and governance costs represented £38.98 per member, which compared well with the inner London average of £42.50. Westminster's fund management costs represented £328 per member, higher than the inner London average of £206. This was mainly attributable to performance related payments to one of the fund managers, Majedie.
- 10.2 George Bruce then referred to the findings of the CEM benchmarking costs exercise in the report. The benchmarking exercise had shown that Westminster's total investment cost was 50.8 bps, equating to £5,329k, above the global median of 49.2 bps, the equivalent of £5,161k. George Bruce advised that CEM calculates a benchmark cost for each fund which takes into account the differences in total costs due to the fund's size and asset mix. Westminster's benchmark cost was 49.9 bps (£5,234k) which when compared to its total investment costs meant that it had incurred an excess cost of just 0.9 bps (£94k). However, George Bruce advised that the Fund's costs and fees would fall as more assets were transferred to the London CIV.
- 10.3 During discussion, Members asked if there were any disadvantages in participating in the London CIV. The Chairman welcomed the prospect that CEM benchmarking would be able to provide a peer-based benchmarking report on costs and performance, albeit at an additional cost. He enquired whether data for transactional costs across a number of LGPS funds spanning a few years could be provided for the Board to consider at a future meeting.

10.4 In reply to Members' queries, George Bruce stated that one disadvantage of participating in the London CIV was the loss of choice in selecting fund managers. However, whilst the London CIV would monitor the fund managers, there was a grey area in terms of whether individual funds' pension fund committees and pension boards could also monitor fund managers, who may claim that they are only accountable to the London CIV. In respect of CEM providing a peer-based benchmarking report on costs and performance, George Bruce advised that the LGPS was considering a collaborative tender to keep the costs of the benchmarking exercise down. Members noted that transactional costs were not available on an individual fund basis. However, George Bruce added that fund managers were supposed to record their annual fees and so it was possible that the Westminster Fund's fees could be compared with the fund managers' fees. He further advised that new data from the Department of Communities and Local Government would become available which could help furnish information in a report on transactional fees. Nikki Parsons added that the London CIV was also considering a acquiring similar type of peer reporting to that offered by CEM.

10.5 RESOLVED:

1. That the contents of the report be noted.
2. That it be agreed that benchmarked cost analysis be presented annually.

11 FUTURE WORK PLAN AND DATE OF NEXT TRAINING SESSION

11.1 Members had before them the Board's proposed work plan 2016/17. It was agreed to add Pension Administration Strategy to the work plan, with an initial draft strategy to be considered at the next Board meeting on 29th November 2016. Members requested to seek clarification that there were Discretionary Policies in place at the next meeting. It was noted that Regulatory Compliance Review would be deferred to a later meeting. Members also requested that the internal auditors be invited to a future meeting.

11.2 Members agreed that the next training session take place in the evening between 6.30pm and 8.30pm. Nikki Parsons was to liaise with the trainer on prospective training dates and then Toby Howes (Senior Committee and Governance Officer) would circulate these dates to Members for a date to be agreed.

12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

12.1 There was no additional business for the Board to consider.

13 STRUCTURE OF FEES AND COSTS - APPENDIX

13.1 The Board discussed the confidential appendix to the Structure of Fees and Costs report that appeared as item 7 on the agenda.

14 MINUTES

14.1 RESOLVED:

That the confidential Minutes of the last Pension Board meeting held on 10th May 2016 be signed by the Chairman as a correct record of proceedings.

The Meeting ended at 8.33 pm.

CHAIRMAN: _____

DATE _____