



City of Westminster

Committee Agenda

Title:

Pension Board

Meeting Date:

Tuesday 23rd August, 2016

Time:

7.00 pm

Venue:

Room 12 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP

Members:

Councillors:

Peter Cuthbertson (Chairman)
Perry (Vice-Chairman)
Adnan Mohammed

Employer Representative:

Marie Holmes

**Scheme Member
Representatives:**

Dr Norman Perry
Susan Manning
Christopher Smith



Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.



An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Toby Howes, Senior Committee and Governance Officer.

Tel: 020 7641 8470; Email: thowes@westminster.gov.uk

Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

To note any changes to the membership.

2. DECLARATIONS OF INTEREST

To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.

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

To appoint a Chair and Vice Chair for the 2016/17 Municipal Year.

4. MINUTES

To approve the Minutes of the Pension Board meeting held on 10 May 2016.

(Pages 1 - 8)

5. MINUTES OF PENSION FUND COMMITTEE

To note the Minutes of the Pension Fund Committee meeting held on 21 June 2016.

To follow.

6. PENSION BOARD ANNUAL REPORT

Report of the City Treasurer.

(Pages 9 - 20)

7. RISK REGISTER REVIEW

Report of the City Treasurer.

(Pages 21 - 38)

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| 8. SURREY PENSION ADMINISTRATION PERFORMANCE - KEY PERFORMANCE INDICATORS UPDATE

Report of the Director of People Services. | (Pages 39 - 44) |
| 9. ANNUAL BENEFIT STATEMENT TIMELINE 2016

Report of the Director of People Services. | (Pages 45 - 46) |
| 10. STRUCTURE OF FEES AND COSTS

Report of the City Treasurer. | (Pages 47 - 52) |
| 11. FUTURE WORK PLAN AND DATE OF NEXT TRAINING SESSION

Report of the City Treasurer. | (Pages 53 - 56) |
| 12. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

PART TWO (IN PRIVATE)

<p>Under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press are excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p> | |
| 13. STRUCTURE OF FEES AND COSTS - APPENDIX

Report of the City Treasurer.

Confidential appendix to item 10 on the agenda is attached. | |
| 14. MINUTES

To approve the Confidential Minutes of the Pension Board meeting held on 10 May 2016. | |

Charlie Parker
Chief Executive
16 August 2016

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Tuesday 10th May, 2016**, Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP.

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

Also Present: George Bruce (Tri-Borough Director of Treasury and Pensions), Nikki Parsons (Pension Fund Officer), Joanne Meagher (Head of Operational People Services), Trevor Webster (Senior People Services Manager) and Toby Howes (Senior Committee and Governance Officer).

Apology for Absence: Councillor Adnan Mohammed.

1 MEMBERSHIP

- 1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

- 2.1 There were no declarations of interest.

3 MINUTES

3.1 RESOLVED:

That the Minutes of the meeting held on 18th January 2016 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION FUND COMMITTEE

- 4.1 The Board noted that the Minutes of the last Pension Fund Committee meeting held on 22 March 2016 would be circulated separately.

5 PENSION FUND 2015-16 ANNUAL ACCOUNTS AND AUDIT UPDATE

- 5.1 Nikki Parsons (Pension Fund Officer) introduced the report and stated that the Accounts and Audit Regulations 2015 set out the requirements for local authorities to produce an annual statement of accounts, including their pension fund accounts. She advised that the Council had submitted its accounts for external audit on 9th April 2016, the earliest public sector accounts ever issued. This achievement meant that the Council had exceeded the performance of 94% of the FTSE 100 listed companies, whilst most local government bodies took around three months to complete their accounts. Nikki Parsons informed Members that the accounts were due to be reported to the Audit and Performance Committee on 12th May 2016. She added that the accounts which had previously been externally audited by KPMG, were being audited by Grant Thornton this year.
- 5.2 The Board then heard from Geoffrey Banister (Grant Thornton), who provided an update on progress on the external audit. He drew Members' attention to the Audit Plan which included standard audit risks, auditing of the new ledger and other risks. The audit plan had been substantially completed and following completion an interim audit statement would be produced, followed by a final statement. Geoffrey Banister circulated a draft statement of findings to the Board and he advised that no material errors had been identified to date, and so therefore no adjustments had been proposed. The findings were largely positive, with only a very minor class change and recommendations to strengthen some internal controls proposed in an otherwise sound statement of accounts. Geoffrey Banister added that the speed with which the accounts had been submitted was impressive, however due to Government regulations, the accounts could not be signed off until 15th July 2016. He thanked the Pensions and Treasury Service for their assistance in ensuring that the audit had gone smoothly.
- 5.3 George Bruce (Tri-Borough Director of Treasury and Pensions) added that the external audit had proved more rigorous than in previous years and all recommendations made by the auditor had been accepted. This included reviewing policy in respect of pension payments for those domiciled abroad and the Council was working closely with Western Union on this matter. In respect of the recommendation concerning journals, these had been undertaken as an interim measure and would not be required to be repeated.
- 5.4 During Members' discussions, it was queried whether the manual interventions required during reconciliation had fully met the audit requirements. In respect of internal controls, clarification was sought on management expenses and investment income not being recorded on the Agresso ledger. A Member requested an explanation as to how figures of £9.891m and £484K had been arrived at for overall materiality and triviality respectively and a description of what was involved in a 'walk through'.
- 5.5 Members welcomed the speed at which the accounts had been completed for audit and acknowledged the effort undertaken to achieve this, despite the issues around Agresso. However, it was queried whether there had been any additional costs incurred to help the early completion. Members sought further

information in respect of typical fraud cases identified, including those involving ex-domiciles and what steps were taken where there had been overpayments to a scheme member who had since died.

- 5.6 In reply to issues raised by Members, Nikki Parsons confirmed that the manual reconciliations complied with audit requirements and there had been a clear balance by the end of the financial year. She confirmed that no additional costs had been incurred in completing the accounts so promptly. George Bruce advised that although management expenses and investment income had been recorded, they had been incorrectly classified and so they had been accordingly re-categorised. Members noted that there were specific processes in place in respect of suspected overpayments to scheme members who had since died and this involved initial contact with the family concerned and court action was available to the Council to recover any costs should this be necessary
- 5.7 Geoffrey Banister advised that a standard fee of £21,000 was set to undertake an external audit of the accounts and additional charges would only be incurred if the external auditor had to carry out additional work due to apparent discrepancies in the accounts. He advised that no such additional work was necessary in this case. Geoffrey Banister advised that some large scale frauds in respect of payment pensions are uncovered by organisations from time to time. In order to prevent future fraud, tests are designed to identify where there may be a reasonable expectation of fraud. However, where there is staff collusion, fraud would be more difficult to identify. Trevor Webster (Senior Human Resources Manager) added that the Agresso system provided different staff with different levels of authority which meant staff collusion would be much more difficult in the case of the Council.

6 RISK REGISTER REVIEW

- 6.1 Nikki Parsons presented the report which focused on the two risks the Board had requested more information on at the previous meeting. The first strategic risk, pensions legislation and regulation changes, was classified as a medium risk and because strategic risks were generally inherent, they could not always be mitigated against. However, it was important for the Pension Fund Committee and the Board to be aware of these risks, particularly when making strategic decisions. Nikki Parsons stated that the Department of Communities and Local Government was required to consult with scheme managers, which included the Council, on any proposed changes in legislation and this was also reported to the Pension Fund Committee. In addition, the Local Government Association, the Chartered Institute of Public Finance and Accountancy and the Pensions and Lifetime Savings Association provided briefings to officers on proposed changes. Nikki Parsons then referred to recent changes in legislation and regulation on draft investment regulations, pooling criteria, Local Government Pension Scheme (LGPS) Regulations 2013 and LGPS (Amendment) (Governance) Regulations 2015 as set out in the report.
- 6.2 Turning to the second strategic risk, Regulation – Introduction of European Directive MiFID II, Nikki Parsons advised that although this was also classed

as a medium risk, it was likely to be downgraded to a lower, possibly green status risk as recent indications were that MiFID II would be delayed and not proceed in its current form. The risk had been categorised as medium as local authorities would default to retail client status from their current professional client status. Such a status change presented the risk that a manager could eject a fund from holding a product outside their scope and result in a fire sale of assets.

- 6.3 During discussions, Members asked whether there were any upcoming changes to pensions regulations and legislation that would particularly affect the Westminster LGPS. A Member asked what the likely response of the Westminster LGPS would be if all schools were to become academies and would scheme members' data be retained. An explanation of the difference between professional client status and retail client status was sought and whether MiFID II would affect financial services in the City.
- 6.4 In reply to the issues raised in Members' discussions, Trevor Webster advised that he did not think changes to pensions legislation and regulations would affect the Westminster LGPS in terms of the software used to manage the pension scheme, and the software would be accordingly updated where there were changes. The software was also effective in terms of preventing overpayments. In the event of all schools being turned into academies, Trevor Webster advised that staff would be subject to TUPE arrangements to ensure their pensions were retained and discussions needed to take place to ensure a suitably robust bond or guarantee was put in place.
- 6.5 George Bruce advised that the Council was a member of a number of professional organisations that provided advice and training in respect of the potential impact of legislative and regulation changes to pensions and there was also considerable dialogue between the London boroughs. Members heard that a professional client was defined by the European Union as a client possessing the experience, knowledge and expertise to make its own investment decisions and to properly assess the risks that it incurs. Under MiFID II, it had been proposed that local authorities no longer met this criteria and so by default would be re-classified as retail clients. However, MiFID II had been delayed whilst further clarification was sought, but there was still the potential for local authorities to be re-classified. George Bruce felt that if MiFID II was implemented, it would not affect the performance of financial services in the City, however financial institutions in the European Union would seek to have a more common understanding and to offer greater protection for pension scheme members.
- 6.6 Members then considered risks to focus on at the next meeting. The Board requested that Risk 4 – Strategic: Funding – Level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities, and Risk 6 – Strategic: Funding – Scheme members living longer than expected leading to higher than expected liabilities, be reported at the next meeting. The Board also requested a separate report on annual benefit statements and timelines.

7 KEY PERFORMANCE INDICATORS UPDATE

- 7.1 The Board considered a confidential report on key performance indicators in respect of the Section 101 Agreement with Surrey County Council to administer the pension scheme.

8 TRAINING UPDATE AND PROPOSALS

- 8.1 The Board considered a confidential report on training and proposals for Members.

9 PENSION FUND BENCHMARKING - COSTS

- 9.1 George Bruce presented the report that provided an update on performance benchmarking of the Fund in respect of the Scheme Advisory Board's (SAB) key performance indicator (KPI) benchmarking exercise and further information in respect of benchmarking investments and costs. The SAB's benchmarking exercise sought to identify examples of best practice and George Bruce referred to the scores for the Council as set out in the report, with positive scores identifying degrees of compliance and minus score non-compliance. He acknowledged that there were negative and zero scores in some areas that needed to be addressed and there was room for improvement. The intention was to gain as many positive scores as possible, although there were some areas that were beyond the Council's ability to influence.
- 9.2 In terms of investment performance, George Bruce advised that although the overall one year net return was slightly below the benchmark, it was 1.3% above the benchmark for the three year net return. The reason for these figures was because of the different strategies adopted by each fund scheme manager. The Fund's management costs were above the average, however it had fully complied with Chartered Institute of Public Finance and Accountancy guidance on accounting for costs. George Bruce added that other funds had not fully complied and this may account for them recording lower management costs. However, over time local authorities would be accounting for costs in a more consistent way, making direct comparisons easier.
- 9.3 Nikki Parsons added that there was considerable variation amongst local authorities in interpreting calculation of the SAB KPI benchmarking exercise and the Council had taken a more critical approach than many.
- 9.4 During discussion, Members commented that the lack of compliance amongst some funds in accounting for costs made comparisons more difficult. The need for more transparency from all funds was emphasised, particularly as the Council's management costs appeared to be comparatively high. Christopher Smith advised that he would be inviting the Transparency Group to Westminster and the Pensions Forum and he also welcomed Board and Pension Fund Committee Members to attend the Pensions Forum.
- 9.5 In reply to issues raised, George Bruce advised that local authorities were now submitting a large number of fees and costs through the London

Collective Investment Vehicle (CIV) and this would enhance the ability to make comparisons. In addition, the London CIV would also help drive costs and fees down.

- 9.6 The Board requested a report comparing management fees and costs with other funds at a future meeting. The Chairman added that this could also include funds that were not managed by local authorities.

10 LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

- 10.1 George Bruce presented the report and advised that the Government had issued pooling criteria requesting that each local authority develop plans to participate with other LGPS in collective asset pools that must be at least £25 billion in size. The Government had required the Council to submit initial plans for meeting the pooling criteria in February 2016 and more detailed plans by July 2016. George Bruce drew Members' attention to the London CIV's initial plans submitted on behalf of the Council and other participating local authorities. The Board noted that the London CIV had made significantly more progress than other pooled vehicles to date. George Bruce advised that the London CIV had already started to take on assets from London boroughs, with three investment mandates transferred and a transfer of £180 million of Westminster assets from Baillie Gifford Global Active equities to the CIV. The transfer was expected to make annual savings of £40,000 for the Fund. George Bruce advised that it was possible that almost all of the Fund's assets would be transferred to the London CIV in the next four years.
- 10.2 Members commented that the London CIV's response to the Government's pooling asset proposals had been encouraging. It was queried whether the role of Pension Boards would change as more assets were transferred to the London CIV in the longer term, whilst acknowledging that it would make comparing data with other funds easier.
- 10.3 In reply, George Bruce advised that the Board's role would not diminish as the London CIV developed as it was only acquiring assets and appointing and monitoring fund managers, whilst the remaining aspects of the Fund and the Pension Scheme, including administrative elements, would remain under the control of the Council.

11 FUTURE WORK PLAN

- 11.1 Members had before them a proposed work plan for the Pension Board for 2016-17. George Bruce advised that work on drafting the Pension Board Annual Report would commence shortly.
- 11.2 Members then discussed what reports they would like to come to the Board at future meetings. The Board requested a report on agreeing the structure of future pension management fees and costs reports and a report setting out the risks in relation to submitting data for the triennial evaluation. A report was also requested providing further details of the London CIV's governance arrangements for the second meeting of 2016/17.

12 DATE OF NEXT MEETINGS

- 12.1 Members considered dates for meetings of the Board for 2016-17. It was agreed that the first meeting take place on Tuesday, 23rd August 2016. For the remaining three meetings, it was agreed that Toby Howes (Senior Committee and Governance Officer) circulate some suggested dates for Members to agree on.

13 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

- 13.1 On behalf of Members, the Chairman in acknowledging that this would be Trevor Webster's last meeting before he left the Council, thanked him for the support he had provided to the Board and wished him well for the future.

14 MINUTES

- 14.1 That the confidential Minutes of the meeting held on 18th January 2016 be signed by the Chairman as a correct record of proceedings.
- 14.2 In reply to a query from a Member, George Bruce confirmed that future reports on the triennial valuation would appear on the public part of the agenda.

15 MINUTES OF PENSION FUND COMMITTEE

- 15.1 The Board noted that the confidential Minutes of the last Pension Fund Committee meeting held on 22nd March 2016 would be circulated separately.

The Meeting ended at 8.30 pm.

CHAIRMAN: _____

DATE _____

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Pension Board

Date:	23 August 2016
Classification:	General Release
Title:	Pension Board Annual Report 2016
Report of:	Steven Mair <i>City Treasurer</i>
Wards Involved:	All
Policy Context:	Effective Control over Council Activities
Financial Summary:	There are no financial implications arising from this report

1. Executive Summary

- 1.1 This Board's terms of reference requires that it should prepare an annual report on its activities and its compliance with the terms of reference. This report is addressed to full Council each year and submitted to the Pension Fund Committee for noting prior to submission to Council.
- 1.2 The report summarises the work undertaken by the Board and recommendation made to the Investment Committee and officers during the year.
- 1.3 The Board has acted in accordance with its terms of reference and has not identified any breaches of legislation or regulation by the pension fund. Recommendations to improve governance have been made to the Pensions Committee.

2. Key Matters for the Board

- 2.1 The Board are asked to review the contents of the report, which will be forwarded to the Pension Fund Committee and Full Council in line with paragraph 7 of the terms of reference.

3. Detail

3.1 Local Pension Boards were established under the 2013 Pensions Act. Each pension administering authority is required to establish a Board to assist with the effective and efficient governance and administration of the scheme. The Board is also tasked with ensuring compliance with the various legislative requirements and those of the pension's regulator, and this adds to the already well developed governance structure which underpins the Westminster pension scheme.

3.2 The Westminster Pension Board held its first meeting on 27th July 2015. The members of the Board are listed below. Members of the Board are invited to attend the Pension Fund Committee as observers. Officers of the Council also attend Board meetings to support the members.

Employer Representatives:

Cllr Peter Cuthbertson (Chairman)
Cllr Adnan Mohammed
Marie Holmes

Employee Representatives:

Susan Manning
Dr Norman Perry (Vice-Chairman)
Christopher Smith

3.3 Terms of reference

Please see Appendix A

3.4 Training undertaken

Please see Appendix B

3.5 Four meetings were held during the first year (prior to 23rd August 2016). The agenda items discussed were:

27 July 2015

Appointment of Chair and Vice Chair
Background and Role of the Pension Board
Role of the Pension Fund Committee
Code of Conduct Policy
Knowledge and Skills Policy

Key Documents

19 October 2015

Pension Fund Committee Agenda from 8 September 2015
Pension Board Indemnity Insurance
Risk Register Scoring Matrix
Pension Administration Contract Cost
Communications and Engagement Update
Data Sharing Update
Pension Board Training Strategy Update
Pension Fund Benchmarking
Public Service Governance and Administration Survey
Future Work Plan

18 January 2016

Pension Fund Committee Minutes from 16 November 2015
Risk Register Review
Pension Administration Costs Update
Training Update
Pension Fund Benchmarking Costs
Audit Arrangements
Data for the Triennial Valuation Update
Pension Board Forward Plan 2016-17

10 May 2016

Pension Fund Committee Minutes from 22 March 2016
Pension Fund 2015-16 Annual Accounts and Audit Update
Risk Register Review
Key Performance Indicators Update
Training Update and Proposals
Pension Fund Benchmarking Costs
London Collective Investment Vehicle Update
Future Work Plan

- 3.6 The first year has seen the Board developing its role and ensuring that members receive the training necessary to undertake the role. It actively reviewed the governance of the Pension Fund in determining ways in which the Board can add value.
- 3.7 The Board have undertaken focussed reviews on different sections of the Pension Fund risk register during the year. The risks which have been reviewed to date were as follows:

18th January 2016

Operational Administration – Failure of Financial System

- It was noted that the implementation of a new finance and HR system in April 2015 had led to comprehensive testing and that workaround solutions had been put in place to ensure that payments to Pension Scheme members and suppliers were being made until issues were resolved.
- Discussions were had about the cost implications of the additional work undertaken by the Council because of the new system and whether additional work would be required in terms of completing the annual accounts.
- An update on progress in addressing the lump sum and supplier payment issue, including identification of additional potential costs to the Pension Fund, was requested for the next meeting (NB report to August meeting).

10th May 2016

Strategic – Pensions Regulation and Regulation Changes

- It was noted that DCLG consults with scheme managers (and this includes Westminster) on any proposed changes in legislation and that this is reported to the Pension Fund Committee.
- In addition, briefings are received by officers from various professional bodies
- Examples of recent changes in legislation and regulation were provided to the Board

Strategic – Introduction of European Directive MiFID II

- It was noted that this directive (which could reclassify local authorities as retail client status from their current professional client status, thus restricting products available for investment) would be delayed and not progressed in its current form
- It was suggested that financial institutions would seek to offer greater protection for pension scheme members

3.8 The Board agreed that the benchmarking of costs and fees incurred by the Pension Fund was an important area of work for this body to investigate further in its role of reviewing, assisting and monitoring the administration of the Scheme. In reviewing the benchmarking of costs, the following comments were made:

- Westminster engages the performance management service from the Fund's Custodian, Northern Trust, to monitor performance of its Pension Fund, although not every local authority uses a performance manager.
- There is a lack of compliance and transparency amongst some Funds in accounting for costs which makes comparisons more difficult.
- Local Authorities are providing detailed information on fees and costs to the London Collective Investment Vehicle (CIV) in response to a consultation on asset pooling. It is currently difficult to benchmark investment manager fees and costs incurred but this collection of data could enhance the ability to make comparisons.

- The London CIV would help drive down costs and fees.

3.9 A key element of the Board's role is to ensure the effective and efficient governance and administration of the pension scheme. Audit arrangements have been reported to the Board during the year and the following points made:

- An internal audit was carried out in October 2014 which resulted in five recommendations. A follow up review in June 2015 concluded that four of these had been fully addressed and one was in progress.
- A Pensions Administration internal audit will take place during 2016/17.
- A representative from Grant Thornton attended the May 2016 meeting. A draft statement of findings from the external audit of the 2015-16 Pension Fund accounts was circulated. There had been no material errors identified and therefore no adjustments had been proposed. Only a minor classification change and recommendations to strengthen some internal controls had been proposed. The recommendations were fully accepted by management and implemented.

3.10 Looking forward, 2016/17 will be a year of great significance for the Local Government Pension Scheme (LGPS). The government has invited detailed submissions from schemes on how they will achieve combining their assets into a small number of pools with a value of in the region of £25 billion each. Whilst schemes will retain the all-important asset allocation decisions, the pooled funds will have a significant influence on the selection of managers. The Board will monitor Westminster's progress and the development of governance structures relating to the pooled funds.

3.11 Next year will also see the results of the triennial valuation. This determines the contribution rate that employers participating in the scheme will pay from 1st April 2017.

3.12 The LGPS is becoming increasingly complex and 2016/17 will add to that complexity. The Board in developing its role will seek to assist and constructively challenge the administering authority in continuing to deliver effective management of the scheme.

4. RECOMMENDATIONS

4.1 The Board are asked to review the contents of the report to ensure it complies with the Terms of Reference as required by paragraph 1.1 above.

4.2 The Report will be forwarded to the Pension Fund Committee and Full Council in line with paragraph 7 of the terms of reference.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix A – Pension Board Terms Of Reference

Appendix B – Pension Board Training

Terms of Reference – City of Westminster Pension Board March 2015

The purpose of this document is to set out the terms of reference for the local Pension Board of the City of Westminster Pension Fund.

1. Role of the Local Pension Board

The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme-recommendations to the Pensions Committee.

2. Membership

a. Appointment process

The Pension Board shall consist of six members and be constituted as follows:

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

The process for selecting non-Council nominated employer members of the Pension Board is set out in a separate document “Selection of Pension Board members”.

b. Quorum

The Pension Board shall be quorate when three Pension Board Members are in attendance.

c. Chairman of the Board

The Chairman and Vice Chairman of the Board will be appointed by members of the Board as the first business at their first meeting.

d. Substitute members

Each Scheme Member representative may agree a nominate substitute at the first meeting who would act in the Board member's absence.

Each Employer representative is there on behalf of the employer so may be replaced by the nominating body with another individual representing the same employer.

e. Periods of office

Each Board member shall be appointed for a fixed period of three years, which can be extended for a further three year period subject to re-nomination.

f. Termination

Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least two meetings each year. In the event of consistent non-attendance by any Board member, then the membership of that particular Board member should be reviewed by the other Board members with advice from Officers

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all the other Board members present at the meeting.

A Board member may choose not to continue in their role, and so shall notify the Board accordingly following which the process for a replacement shall start.

3. Board meetings

a. Frequency of meetings

The Board shall as a minimum meet twice a year, and where possible, should aim to do so four weeks before the Pensions Committee meets. Meetings shall take place at a time and place agreed by the Pensions Board on an annual basis.

b. Voting rights

Each Board member will be entitled to vote and where a vote is taken the matter will be decided by a majority of the Board members present and voting but it is expected that the Pension Board will as far as possible reach a consensus. In the event of an equality of votes, the Chairman will have a second and or a casting vote.

c. Notice and circulation of papers

The papers for each Board meeting shall be circulated to all Board members one calendar week in advance of each meeting. The papers shall be published on the Council's website unless they contain material considered to be exempt or confidential, as defined by the Local Government Act 1972 and subsequently agreed as such by the Board.

d. Minutes

Minutes of all non-confidential or non-exempt parts of the Board's meetings shall be recorded and published on the Council's website.

e. Secretariat service

Council officers will provide the Board with the secretariat services required.

4. Role of Advisers

a. Access to Council advisers

The Board may request that one of the Council's advisers attends a Board meeting to provide advice or information to the Board. The request should be submitted to the Chief Executive.

- b. Appointment of advisers specifically for the Board
If the Board requires advice outside that already provided to the Council, then the request should be made to the Pensions Committee and Council officers.
- 5. Budget and Expenses
 - a. Budget
An annual budget will be agreed by the Board for professional advice, training or other purposes if such matters are required and Officers being authorised to incur expenditure to implement the programme.
 - b. Expenses
Each Board member may claim, upon production of the relevant receipts, travel expenses directly incurred in the work of the Pension Board.
- 6. Additional policies relating to the Board operations
 - a. Code of Conduct
The role of Pension Board members requires the highest standards of conduct and therefore, all Board members are required to abide by the Pension Board Code of Conduct.
 - b. Conflict of Interests
The Board is required to always act within these terms of reference. Board members should abide by the separately prepared Conflicts Policy and keep the policy under review.
 - c. Knowledge and understanding
All Board members are required to have sufficient knowledge and understanding of pensions matters to undertake their roles. Board members are expected to comply with the separate policy on knowledge and understanding and maintain appropriate records.
- 7. Reporting
 - a. Annual report on activity
The Pension Board should prepare an annual report on its activities and its compliance with these terms of reference and the associated policies. This report should be addressed to full Council each year, in the first six months of the financial year, reporting on the activities of the Pension Board for the previous financial year. Such a report will be submitted to the Pension Committee for noting prior to submission to Council.
 - b. Reporting recommendations
If the Pension Board determines that it wishes to make recommendations to the Pension Committee, such recommendations should be reported to the next meeting of the Pension Committee. The Pension Committee's response to the recommendation will be reported to the next meeting of the Pension Board.

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Appendix B – Westminster Pension Board Training

Date	Training Undertaken	Overview of Content
27th August 2015	Local Pension Board Introductory Training provided by Barnett Waddingham	<ul style="list-style-type: none"> • Key legislation and documents • Terminology and key roles • Key organisations • Westminster Pension Fund Governance Structure • Knowledge and Understanding requirements for a Local Pension Board Member • Overriding Pensions Legislation • Overview of the Local Government Pension Scheme • Operating the Westminster Pension Fund • The Role of Westminster Local Pension Board • Sources of further information
9th February 2016	Actuarial Valuation Training provided by Barnett Waddingham	<ul style="list-style-type: none"> • What is an actuary • The role of the actuary in the LGPS • How Barnett Waddingham conducts a valuation • Current Issues affecting the valuations

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Pension Board

Date:	23 August 2016
Classification:	General Release
Title:	Risk Register Review
Report of:	Steven Mair <i>City Treasurer</i>
Wards Involved:	All
Policy Context:	Effective Control over Council Activities
Financial Summary:	There are no financial implications arising from this report

1. Executive Summary

- 1.1 This report gives an overview of the risk management arrangements for the Westminster Pension Fund.
- 1.2 This report focuses on two strategic funding risks to the Pension Fund. Firstly, the level of inflation and interest rates assumed in the valuation being inaccurate and secondly, Scheme members living longer than expected, both which could lead to higher than expected liabilities.

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper.
- 2.2 The Board members consider an area of the Risk Register to focus on for the next meeting.

3. Background

- 3.1 As previously reported to the Pensions Board, it is best practice for Pension Funds to maintain a risk register to ensure that the risks they face are properly understood and where appropriate action is needed to mitigate them.

- 3.2 Risk management is an issue for all those involved in the management of an LGPS fund, including members of the Pension Fund Committee, officers managing the Fund and the fund administrator. The Pension Board's role is to assist the administering authority in such activities to ensure effective and efficient governance and administration of the Scheme, as outlined in its Terms of Reference. This includes making recommendations to the Committee concerning good governance.
- 3.3 Attached at Appendix 1 is the updated Pension Fund Risk Register, which was reported to the Pension Fund Committee (the 'Committee') in June 2016. This supersedes the version which was previously presented to the Pension Board. The risk register is a 'live' document and risks will change due to management action and the external environment.
- 3.4 The Pension Board members agreed at the preceding meeting which sections of the Risk Register they wish to focus on in future meetings.

4. Focus Area: Strategic: Funding – Inflation and Interest Rates Assumed in the Valuation are Inaccurate

- 4.1 *"The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities"* is one of the risk areas which Board members have decided to focus on. This is referenced as Risk 4 in Appendix 1.
- 4.2 This risk has a medium risk classification. Strategic risks are generally inherent and cannot be mitigated against although the Pension Fund Committee needs to be aware of these risks particularly when making strategic decisions.
- 4.3 The following information has been provided by the Fund's Actuary, Barnett Waddingham.

Inflation

- 4.4 Inflation will have a direct impact on liabilities. For example, the rate of pensions increase is linked to the Consumer Prices Index. The following table sets out the pension increase orders applying to final salary benefits, which account for most of the Fund's liabilities, over the last three years:

Year	Pension increase order
2014	2.7%
2015	1.2%
2016	0%

- 4.5 Therefore, over the three year period, current and deferred final salary pensions were uprated by an effective rate of 1.3% p.a. This compares with the pension increase assumption of 2.7% p.a. at the 2013 valuation. Hence, looking at the pension increase experience alone, liabilities will have increased by less than assumed and this will help the funding position.
- 4.6 Similarly, the 2013 valuation assumed future inflationary salary growth of 1% p.a. over the three years to 31 March 2016 (in addition to a promotional scale), which is in line with the public sector pay awards over the period. Therefore Barnett Waddingham would not anticipate any significant deterioration in the funding position due to salary increases being higher than assumed, but they can confirm this when they carry out a full salary experience analysis as part of the valuation.
- 4.7 The starting point for the actuary when estimating future inflation levels is the market expectation as reflect in gilt and derivative pricing. The Actuary will also take into account other factors such as the Bank of England inflation target, history etc and may modify the market rate. The Actuary is forecasting very long term and this expects periods when out-turns will be lower or higher.

Interest rate / Discount rate

- 4.8 The most important assumption Barnett Waddingham make as part of each valuation is the discount rate, the assumed investment return on the Fund's assets. The 2013 valuation used a discount rate of 5.9% p.a. for Scheduled Bodies, with a lower discount rate being used for Admission Bodies reflecting the lower level of credit quality. The extent to which the actual investment return differs from the assumed investment return will affect the funding position and Barnett Waddingham does monitor this as part of their quarterly funding updates. From the most recent reports, it can be seen that the value of the Fund's assets are higher than where they were projected to be at the 2013 valuation, with an estimated return over the three year period of about 6.9% p.a..
- 4.9 The approach to setting the assumed investment return, or discount rate, is driven by the Fund's actual investment strategy. Barnett Waddingham take a view on the returns that may be expected from the Fund's actual asset allocation. This helps to maintain stability in the funding position and hence avoid significant volatility in the required contribution rate, which is of course a key risk. By contrast, other actuaries determine the discount rate in part by using the returns available on government bonds, regardless of which assets the Fund holds, and this "mismatch" between the valuation of assets and liabilities can create excessive volatility.
- 4.10 It is important to note that the discount rate is not static and that it changes every day depending on market conditions. Hence another key risk is that relating to changes in the assumptions. Again, Barnett Waddingham monitor this risk

through their quarterly monitoring reports, which help to illustrate how the liabilities are moving over time as result of these changes. At each triennial valuation, there may also be methodological changes to the way the financial assumptions are derived.

- 4.11 Therefore, Barnett Waddingham does monitor these financial risks between valuations and the assumptions they use for each valuation are then in part informed by a full review of experience over the period. In terms of mitigating the risks, the assumptions also contain an element of prudence so that, in their view, the actual experience of the Fund in future is more likely to be better than assumed than it is to be worse than assumed. The challenge for Actuary is the degree of prudence to build into the actuarial assumptions as excess prudence requires higher employer contributions.

5. Focus Area: Strategic: Funding – Scheme Members Live Longer Than Expected

- 5.1 “*Scheme members live longer than expected leading to higher than expected liabilities*” is the other area which Board members have decided to focus on. This is referenced as Risk 6 in Appendix 1.
- 5.2 This risk has a low risk classification.
- 5.3 It is not possible to predict with any certainty how long members of the Fund will live, and if members live longer than expected, the Fund’s funding position will deteriorate and additional contributions will be required.
- 5.4 At the last valuation in 2013, it was observed that over the previous decade, life expectancies had increased more quickly than most predictions. The assumption adopted at the last valuation for mortality projection gave a long term rate of improvement of 1.5% per annum, equivalent to 1 ½ years additional life expectancy every decade.
- 5.5 At this stage, it is difficult for the Actuary to offer comment on the mortality experience of the Fund. This can only be truly assessed once they have received full membership data as part of the valuation. Their specialist longevity team will be carrying out an in-depth analysis of the mortality experience over the last few years and will provide a full report over the coming months. Again, the outcome of this review will help to determine suitable mortality assumptions going forward.
- 5.6 Recent indications are that improvements in life expectancy has either stabilised or slowed, although care has to be taken in short term experience and medical innovations can lead to step changed in life expectancy.

6. Monitoring of Factors

- 6.1 Barnett Waddingham carries out a full assessment of all these factors every three years as part of the triennial valuation. Their valuation reports contain an analysis of how they have affected the funding position over the inter-valuation period. This analysis of experience over the period helps to inform the assumptions which they make going forward to ensure they remain appropriate.
- 6.2 A copy of the 2013 Actuarial Valuation Report can be found on the Pension Fund page of the Council's website, by following the link below:

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

7. Next Meeting

- 7.1 The Board members are asked to consider the Risk Register focus area for the next meeting.

If you have any queries about this report please contact the author:

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BACKGROUND PAPERS:

None

APPENDICES

Appendix 1 - Pension Fund Risk Register, reviewed June 2016




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Appendix 1: Pension Fund Risk Register, June 2016



Changes to the risk register since previous quarter




Type	Ref	Risk	Rationale
Decrease Impact Score	3	STRATEGIC: INVESTMENT Failure of custodian or counterparty.	The impact score has been decreased to reflect the introduction of the pooling of funds and the recent transition of the Baillie Gifford holding, which is now being managed by the London CIV.
Decrease Likelihood and Impact Score	9	STRATEGIC: REGULATION Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	The likelihood and impact scores have been decreased to reflect recent indications that the Directive will not proceed in its current form and therefore completion has been delayed. Also, it is envisaged that Fund Managers will wish to continue existing relationships and officers believe the revised regulations will not impact on the investment opportunities.
Decrease Likelihood and Impact Score	19	OPERATIONAL: ADMINISTRATION Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	The likelihood and impact scores have been decreased to reflect the accuracy and timeliness of payment processing identified during the preparation of the Pension Fund Statement of Accounts for 2015-16 and the subsequent audit conducted by Grant Thornton. The audit includes testing of the internal controls around the occurrence of benefits payments and there were no significant issues identified.




Pension Fund risk register, June 2016



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	STRATEGIC: INVESTMENT That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> Investment strategy in place and reviewed periodically. Performance is measured against a liability based benchmark. Fund performance is reviewed quarterly. 	2	3	Low 6 	City Treasurer	September 2016
2	STRATEGIC: INVESTMENT Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> Independent monitoring of fund manager performance by custodian against targets. Investment adviser retained to keep watching brief. Fund manager performance is reviewed quarterly. 	3	3	Low 9 	City Treasurer	September 2016
3	STRATEGIC: INVESTMENT Failure of custodian or counterparty.	<ul style="list-style-type: none"> At time of appointment, ensure assets are separately registered and segregated by owner. Review of internal control reports on an annual basis. Credit rating kept under review. 	2	3	Low 6 	City Treasurer	September 2016



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	STRATEGIC: FUNDING The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. 	4	3	Medium 12 	City Treasurer	September 2016
5	STRATEGIC: FUNDING There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	<ul style="list-style-type: none"> Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review. 	2	1	Very Low 2 	City Treasurer	September 2016
6	STRATEGIC: FUNDING Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. 	4	2	Low 8 	City Treasurer	September 2016



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
7	STRATEGIC: FUNDING Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly. 	2	3	Low 6 	City Treasurer	September 2016
8	STRATEGIC: REGULATION Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood. 	3	4	Medium 12 	City Treasurer and Acting Director of HR	September 2016



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
9	STRATEGIC: REGULATION Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	<ul style="list-style-type: none"> Officers are engaging with Fund Managers to understand the position better Knowledge and Skills Policy in place for Officers and Members of the Committee Maintain links with central government and national bodies to keep abreast of national issues. 	2	2	Very Low 4 	City Treasurer	September 2016
10	OPERATIONAL: GOVERNANCE Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters. 	2	2	Very Low 4 	City Treasurer	September 2016
11	OPERATIONAL: GOVERNANCE Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> External professional advice is sought where required Knowledge and skills policy in place (subject to Committee Approval) 	3	3	Low 9 	City Treasurer	September 2016



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
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.	<ul style="list-style-type: none"> Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions team provides resilience and sharing of knowledge. 	3	3	Low 9 	City Treasurer and Acting Director of HR	September 2016
13	OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	<ul style="list-style-type: none"> At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided. 	2	2	Very Low 4 	City Treasurer	September 2016
14	OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds. 	3	2	Low 6 	City Treasurer and Acting Director of HR	September 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
15	OPERATIONAL: FUNDING Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	<ul style="list-style-type: none"> Review “budgets” at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early. 	3	2	Low 6 	City Treasurer and Acting Director of HR	September 2016
16	OPERATIONAL: FUNDING Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 	2	3	Low 6 	City Treasurer and Acting Director of HR	September 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
17	OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	<ul style="list-style-type: none"> Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. Review of third party internal control reports. Regular reconciliations of pension payments undertaken by Pensions Finance Team. Periodic internal audits of Pensions Finance and HR teams. 	4	2	Low 8 	City Treasurer and Acting Director of HR	September 2016
18	OPERATIONAL: ADMINISTRATION Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	<ul style="list-style-type: none"> Contract monitoring in place with all providers. Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 	3	1	Very Low 3 	City Treasurer and Acting Director of HR	September 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
19	OPERATIONAL: ADMINISTRATION Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	<ul style="list-style-type: none"> Contract in place with BT to provide service enabling smooth processing of supplier payments Process in place for Surrey CC to generate lump sum payments to members as they are due. Officers undertaking additional testing and reconciliation work to verify accounting transactions 	2	2	Very Low 4 	City Treasurer	September 2016
20	OPERATIONAL: ADMINISTRATION Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. 	1	5	Very Low 5 	Acting Director of HR	September 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
21	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months. 	2	3	Low 6 	Acting Director of HR	September 2016
22	OPERATIONAL: ADMINISTRATION Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily. 	1	5	Very Low 5 	Acting Director of HR	September 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
23	OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	<ul style="list-style-type: none"> Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tupe to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed. 	2	3	Low 6 	Acting Director of HR	September 2016
24	Operational: Administration BT unable to provide monthly or end of year interface files in a format suitable for Surrey CC to update service records and undertake day to day operations. Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers.	<ul style="list-style-type: none"> Issue has been escalated by the Chief Executive for high level resolution with BT Test files are currently with SCC Actuary undertakes data cleansing on the service records and is confident this will mitigate the inaccuracies in service records 	4	3	Medium 12 	Acting Director of HR	September 2016

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Pension Board

Date:	23rd August 2016
Classification:	General Release
Title:	Surrey Pension Administration Performance
Report of:	Jo Meagher Head of Operational People Services
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

- 1.1 As requested by the Pension Board, this report sets out details of the current performance of the pension administrators, Surrey County Council (SCC).
- 1.2 The aim of People Services is to ensure that our pension administration standards are consistently high. That data is accurately maintained, that information is provided to members in a timely fashion and that payments are made promptly.

2. Current Position

- 2.1 Westminster People Services are responsible for managing the pension administration service, which is provided for our pension fund by SCC under a partnership 101 agreement. The agreement should maintain a high level of service provision whilst limiting costs due to the fact that the service is provided on a cost neutral basis with no shareholder profit for the administrator to account for in its charging.
- 2.2 The Pensions Officer had been aware that service standards by (SCC) Pensions administration had fallen during 2015/ 2016 due to an increasing number of complaints.
- 2.3 There were some external factors that influenced this that were beyond the control of SCC. One major issue is that WCC went live on 1st April 2015 with its

Managed Service Programme (MSP) a combined HR / Payroll and Finance contract provided for all of TriBorough, WCC, LBHF and RBKC. There were a number of problems with the MSP programme in 2015 / 2016 with a number of staff paid incorrectly or having pension deductions either being calculated incorrectly or not being deducted on all qualifying earnings. BT were unable to cope with the number of pension queries in the first six months of the new contract and this then spilled over to staff contacting Surrey and distracting from the work that they had to do. BT were also slow or unable to provide information to Surrey for member queries and this also slowed general response times down.

- 2.4 In addition the pensions interface that uploads information for starters in the scheme was not working throughout the year which again meant that the administrators were relying on manual updates of information which slowed the response to all members as more resource was needed to set up the records on the pension system
- 2.5 There were other problems for the Pensions Team at SCC. They had a number of staff members off on long term sickness. One of those staff worked in the technical team who help run the altair pensions system which maintains everyone's pension records and calculates benefits for members. Replacing staff with this technical knowledge on a temporary basis is very difficult.
- 2.6 In addition SSC took on bi borough work from LBHF and RBKC in September 2015 from their previous administrator Capita. SSC inherited no staff from Capita and the data for bi borough was not complete and this again stretched SSC resources and helped to reduce the service that people who contributed to the WCC fund received.
- 2.7 The Pensions Officer is aware that members found it very difficult to contact SCC in April 2016 and that processing some case types in particular retirements were often slow and not within our agreed turnaround times.
- 2.8 The Pensions Officer has made Surrey aware that improvement is necessary. They have now implemented a new phone system and access does seem to have improved. Surrey have had an internal re-organisation and they have recently recruited more staff to help maintain the level of service to all their clients going forward.
- 2.9 Surrey have provided the Pensions Officer with Key Performance Indicators as attached for the first 4 months of the current financial year. Although small numbers are involved overall it's clear that people retiring are too often not having their option form sent out on time only 67% meeting the KPI in May and in addition once the forms are returned the retirement benefit maybe processed late.
- 2.10 The Council Auditor Grant Thornton is due to audit the pension fund administration service in August / September 2016 and they have been asked to include a review of case management focussing in part on retirements.

2.11 In addition The Pension Officer will be visiting SCC to review some cases independently of the data that they provide.

3. Summary

3.1 Peoples Services will work with both BT and Surrey County Council to improve the pension service to members going forward and will keep the board informed of progress.

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KPI - WESTMINSTER CITY COUNCIL PENSION FUND - April to July 2016

Description	Target time/date as per Partnership Agreement	Target	Actual Score April 2016	Actual Score May 2016	Commentary on late cases	Actual Score June and July 2016	Commentary
PENSION ADMINISTRATION							
DEATH BENEFITS							
Notify potential beneficiary of lump sum death grant	5 days	100%	100.0%	100.0%		100.0%	
Write to dependant and provide relevant claim form	5 days	100.0%	100.0%	100.0%		100.0%	
Set up any dependants benefits and confirm payments due	14 days	100%	100.0%	100.0%		100.0%	
RETIREMENTS							
Retirement options issued to members	5 days	100%	77.0%	67.0%	Represents less than 5 cases but additional resource to be allocated to this area following recent recruitment campaign and reorganisation. Improvement expected for Q2	77.0%	3 cases completed late
New retirement benefits processed for payment following receipt of claim forms	5 days	100%	83.0%	94.0%		82.0%	4 cases completed late
REFUNDS OF CONTRIBUTIONS							
Refund paid following receipt of claim form	14 days	100%	100.0%	100.0%		100.0%	
DEFERRED BENEFITS							
Statements sent to member following receipt of leaver notification	30 days	100%	See note	See note	Timescales are not measured accurately currently as exercise is now being undertaken to bring records up to date following bulk submissions of leaver forms from BT/WCC	See note	Timescales are not measured accurately currently as exercise is now being undertaken to bring records up to date following bulk submissions of leaver forms from BT/WCC
NEW JOINERS							
New starters processed	30 days	100%	98.0%	100.0%		100.0%	Note only low numbers processed pending receipt of interface file
TRANSFERS IN							
Non LGPS transfers-in quotations	30 days	100%	100.0%	100.0%		100.0%	
Non LGPS transfers-in payments processed	30 days	100%	100.0%	100.0%		100.0%	
TRANSFERS OUT							
Non LGPS transfers-out quotations processed	30 days	100%	100.0%	100.0%		100.0%	Low numbers processed pending system updates following revised GAD guidance
Non LGPS transfers out payments processed	30 days	100%	100.0%	100.0%		100.0%	
Monthly Pensioner Payroll							
Full reconciliation of payroll and ledger report provided to WCC	Last day of month		Achieved	Achieved		Achieved	
Issue of monthly payslips	3 days before pay day		Achieved	Achieved		Achieved	
RTI file submitted to HMRC	3 days before pay day		Achieved	Achieved		Achieved	
BACS File submitted for payment	3 days before pay day		Achieved	Achieved		Achieved	
Annual Exercises							
ANNUAL BENEFIT STAEMENTS							
Issued to Active members	31 August each year		On target				On target
ANNUAL BENEFIT STAEMENTS							
Issued to Deferred members	31 August each year		On target subject to Government decision on 2015 revaluation				On target subject to Government decision on 2015 revaluation
P60s Issued to Pensioners							
Non LGPS transfers-in quotations processed within 20 days	31 May each year		May				
Apply Pensions Increase to Pensioners							
Apply Pensions Increase to Pensioners	April each year		April				
Pensioners Newsletter							
Pensioners Newsletter	April each year		April				
CUSTOMER SERVICE							
	Number of Respondents	% of Members who rated our service overall as excellent, very good or good					
Survey issued to all members who had retired since 1 September 2014	40	93%					

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Pension Board

Date:	23rd August 2016
Classification:	General Release
Title:	Annual Benefit Statement Timeline 2016
Report of:	Jo Meagher Head of Operational People Services
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

- 1.1 As requested by the Pension Board, this report sets out details of the 2016 Annual Benefit Statement (ABS) current timeline.
- 1.2 The aim of people services is to ensure that our pension administration standards are consistently high. That data is accurately maintained, that information is provided to members in a timely fashion and that payments are made promptly.

2. Current Position

- 2.1 Members have an entitlement to an Annual Benefit Statement (ABS) and should be provided with this by 31st of August for the financial year ending the previous 31st of March.
- 2.2 2015 was a particularly challenging year for the production of ABS. This was in part due to the fact that the introduction of the new Care scheme from 1 April 2014 complicated the end of year returns employers needed to make further calculations. This delayed employers within the fund making returns on time and increased the number of queries that our administrators Surrey County Council (SCC) had to go back to employers with before ABS could be provided.
- 2.3 In 2016 the majority of employers have submitted returns on time. The accuracy of the returns have improved as employers are understanding the requirements

of the LGPS in 2014 and have adapted their reporting systems to pick up both the old full time definition of pensionable pay and the new Care definition of pensionable pay that are vital to provide members with accurate figures in their ABS.

- 2.4 The major issue in producing the ABS in 2016 on time is for the main fund employer Westminster City Council (WCC). The end of year file for 2015/2016 is the first year that WCC's new payroll provider BT have produced a file on the back of a difficult year. The initial file from BT was produced late and subsequently a number of alterations were required to a large number of members and these were submitted to SSC on Friday July 29th.
 - 2.5 People Services in conjunction with SSC determined that the records would need to be amended before the ABS files could be produced to ensure accuracy for members in this important document.
 - 2.6 As at 12th August SSC are still on track to send out the ABS for WCC members by August 31st.
 - 2.7 The pension board should note that this is intended to be the last year that members receive a paper ABS. The plan of People Services and SSC is that next year ABS will be available via the Member Self Service platform that will link to the Members Direct Pension Record. The members will need to request access and be given a pin to view their document online. Direct access should mean that members will be able to see their ABS quicker next year.
 - 2.8 The Pension Board will be updated on this as People Services move forward with plans.
- 3. Summary**
- 3.1 Peoples Services will work with SSC to ensure accurate ABS are sent out as soon as possible and update the board at the next meeting.



Pension Board

Date:	23 August 2016
Classification:	General Release
Title:	Pension Fund Costs and Fees Benchmarking
Report of:	Steven Mair <i>City Treasurer</i>
Wards Involved:	All
Policy Context:	Effective Control over Council Activities
Financial Summary:	There are no financial implications arising from this report

1. Executive Summary

- 1.1 At the 10th May 2016 meeting, the Pension Board requested a report to determine the structure in comparing management fees and costs with other pension funds
- 1.2 This report summarises the costs for each type of expenditure which the Pension Fund incurred during the 2015/16 financial year compared to the previous two years and presents the benchmarking data which is available for comparing costs against other pension funds.

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper
- 2.2 The Board agree that benchmarked cost analysis be presented annually.

3. Background

- 3.1 At the May meeting of the Westminster Local Pension Board, members were provided with an analysis of the Fund's management costs over the previous five years to 2014/15.

- 3.2 The report highlighted the complexities in benchmarking costs against other Fund's due to factors such as changes to the reporting requirements over time, the relationship between fund size and costs, whether assets are actively or passively managed and the inconsistency (in particular for pooled fund costs) and lack of transparency across Funds in reporting their cost information.
- 3.3 The Board requested a report on agreeing the structure of future pension management fees and costs reports.

4. Westminster Pension Fund Management Expenses 2015-16

- 4.1 The breakdown of the Pension Fund management expenses for 2015-16 is included as Appendix 1 (exempt) and the comparative figures for the prior two years are also included.
- 4.2 Fund manager fees are based on the market value of the fund, which has increased 10% over the three year period from £964 million to £1,058 million. The increase in manager fees is largely attributable to the performance management fees paid to one fund manager to reward out-performance. This is detailed in Appendix 1 (exempt).
- 4.3 Advisory and Professional fees are mainly determined by the volume of work undertaken by these advisors at the request of the Pensions Committee. The reduction in these costs over the three year period reflects the level of work undertaken plus the lower fees which have been secured during the re-tender of the Actuary and Pensions Administration contracts. Actuarial and investment strategy reviews are not annual events.
- 4.4 Central costs are the internal staffing and associated costs incurred for managing the Pension Fund. The costs which are paid by the Council in respect of those officers within City Treasurers and Peoples Services who undertake work on behalf of the Pension Fund are recharged each year. These costs have remained relatively constant over the three years.
- 4.5 All expense invoices are checked by officers against budget based purchase orders. The Pension committee review annual analysis of scheme costs in a similar format to the papers enclosed. The monitoring of investment returns is based on net of fees calculations.

5. Benchmarking Costs Provided by the DCLG

- 5.1 The analysis below considers Westminster's costs compared to the annual analysis prepared by the DCLG for 2014-15. Data for 2015-16 is expected towards the end of the year.

Table A: Local Government Pension Scheme administration and fund management costs in England and Wales 2014-15, per scheme member (psm)

	Administration costs (£ psm)	Fund management costs (£ psm)	Total costs (£ psm)
English shires	£22.41	£130.05	£152.46
Metropolitan authorities	£15.91	£148.77	£164.68
Inner London	£42.50	£205.66	£248.17
Outer London	£48.94	£174.74	£223.68
Other English authorities	£48.14	£152.07	£200.21
All English authorities	£24.98	£142.28	£167.26
Welsh authorities	£28.28	£180.17	£208.45
All authorities	£25.19	£144.65	£169.84

- 5.2 The above is a measure of administration costs per member. The appropriate comparison for Westminster is inner London £42.50, as this takes into account scheme size and local costs.
- 5.3 Westminster had 16,060 scheme members at 31st March 2015.
- 5.4 Westminster's costs in 2014-15 of £7,047,000 comprise investment £5,261,000, administration and governance £626,000 and transaction fees £1,160,000.
- 5.5 Westminster's administration costs and Governance costs represent £38.98 per member, below the inner London average of £42.50.
- 5.6 Westminster's fund management costs represent £328 per member, significantly in excess of the inner London average of £206. More than half (58%) of Westminster's costs are represented by one fund manager, Majedie, mostly the performance related element. While performance fees look expensive when the investment manager exceeds their target, they do provide an alignment of interest.
- 5.7 The DCLG also provide data to allow comparison of fund manager costs as a percentage of asset value. For inner London the average cost in 14/15 was 0.34% of the year end market value. For Westminster the value was 0.48%.

Conclusion

- 5.8 Westminster's administration costs are lower than the inner London average. Investment costs are higher with the performance fee element for Majedie being the main explanation.

6. Benchmarking Costs Provided by CEM Benchmarking

- 6.1 CEM provide a global benchmarking service. The latest available survey based on 2014 data comprised of a database of 407 funds representing £5.8 trillion in assets, 194 of these were public funds.
- 6.2 The median membership was 43,618 members (versus Westminster's 16,060 members). The median assets per member was £104,941 (versus Westminster's £68,406).
- 6.3 It is important to note that costs included in the report for the LGPS are reported for the financial year ending March 2015 but for the wider universe of funds, costs are for the year ending December 2014.
- 6.4 In 2014/15, Westminster's total investment cost was 50.8 bps (£5,329k). This was above the global median of 49.2 bps (£5,161k). Total investment costs excluded transaction costs.
- 6.5 CEM calculates a benchmark cost for each fund to take account of differences in total costs due to fund size and asset mix. For Westminster, the benchmark cost was 49.9 bps (£5,234k). Comparing against this benchmark, Westminster incurred an excess cost of just 0.9 bps (£94k).
- 6.6 CEM list generic reasons why a Fund's costs might be higher compared to their benchmark are:
- Using a higher cost implementation style such as appointing external fund managers and employing active fund management. This is not taken account of in the benchmark equation. The Westminster Pension Fund was 73% externally actively managed, which was above the global average of 67%. Active managers have the capacity to outperform the benchmark index and therefore can provide additional returns in excess of the fees paid.
 - Paying more than similar sized funds for same-style, same-asset-class investment management. Peer-based reporting is available (but not yet purchased) from CEM benchmarking at an additional cost, which provides further analysis on this.
 - Paying more than similar sized funds for oversight, custodial and other costs. Westminster incurred costs of 3.3 bps which matched the LGPS median and was below the Global median of 4.0 bps.

Conclusion

- 6.7 Being high or low cost is neither good nor bad. The important question is whether the Fund is receiving sufficient value for any cost. The investment performance of the Fund Managers is monitored quarterly by the Pension Fund Committee and the payment of outperformance fees over recent years would tend to support this.

7. Future Reporting and Monitoring of Pension Fund Costs and Fees

- 7.1 Due to the complexity involved in the benchmarking of costs and the resources required to carry out such comparisons, it is only feasible to use existing sources of such analysis.
- 7.2 Cost benchmarking information from DCLG and CEM is available annually at no cost to the Fund and it is proposed that this be reported to the Pension Board when it becomes available.
- 7.3 CEM benchmarking can provide a peer-based benchmarking report on costs and/or performance at an additional cost. This is being investigated by officers to determine whether it is a suitable option for Westminster and the findings will be reported to the Board at the next meeting.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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Pension Fund Officer

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BACKGROUND PAPERS:

- CEM Benchmarking 2014/15 Investment Benchmarking Analysis for City of Westminster

APPENDICES:

Appendix 1: EXEMPT

Westminster Pension Fund Management Costs

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Pension Board

Date:	23 August 2016
Classification:	General Release
Title:	Pension Board Forward Plan
Report of:	Steven Mair <i>City Treasurer</i>
Wards Involved:	All
Policy Context:	Effective Control over Council Activities
Financial Summary:	There are no financial implications arising from this report

1. Executive Summary

- 1.1 This report presents the forward plan for the Pension Board and incorporates the dates and proposed agenda items outlined for the Pension Fund Committee meetings.
- 1.2 The Board are invited to agree a date for the next Pension Board training session.

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper.
- 2.2 The Board agree the date for the next Pension Board training session.

3. Background

- 3.1 The forward plan identifies the expected agenda items for the Board and the Pension Committee for the remainder of the 2016/17 municipal year. The Board is invited to review the proposed Board agenda and indicate any amendments.

- 3.2 The Chair has requested that due to the availability of some Pension Board members that future training be held during an evening session.
- 3.3 Members are invited to agree a date for the upcoming training module, which is to cover financial markets & product knowledge, procurement & relationship management and investment management & risk management.
- 3.4 It is recommended that the training session should take place prior to the next Board meeting, which is due to be held on 29th November 2016.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Pension Board 2016-17 Forward Plan

Pension Board Forward Plan 2016-17

A proposed work plan for the Pension Board during 2016/17 is outlined below. The proposed dates and work plan of the Pension Fund Committee is included for reference purposes (*blue text*).

<p><i>20th September 2016</i></p> <p><i>Pension Fund Committee</i></p>	<ul style="list-style-type: none"> <i>Quarterly Update pack for 30th June 2016</i> <i>Annual report on Pension Board activities</i> <i>Review of Pension Fund Expenses</i> <i>Re-enrolment Update</i> <i>Pooling and CIV Update</i> <i>Investment Adviser Contract Update</i> <i>Actuarial Valuation Progress – Actuary to attend</i> <i>Investment Strategy Statement (if available)</i>
<p><i>15th November 2016</i></p> <p><i>Pension Fund Committee</i></p>	<ul style="list-style-type: none"> <i>Quarterly Update pack for 30th September 2016</i> <i>Scheme Advisory Board Key Performance Indicators (if available)</i> <i>Risk Register review</i> <i>Admission Policy and Risk Register</i> <i>Pooling and CIV Update</i> <i>Feedback from Annual Fund Manager Monitoring Day</i> <i>Draft Actuarial Valuation Results and Contribution Rates</i>
<p>29th November 2016</p> <p>Pension Board</p>	<ul style="list-style-type: none"> Pension Fund Committee Papers 20th September 2016 Quarterly Performance Indicators Update pack for 30th September 2016 Risk Register Review – focus to be determined Interim review of training received to date Promotion of Scheme Membership Regulatory Compliance Review

<p>27th February 2017</p> <p>Pension Board</p>	<ul style="list-style-type: none"> • Pension Fund Committee Papers 15th November 2016 • Quarterly Performance Indicators Update pack for 31st December 2016 • Risk Register Review – focus to be determined • Briefing on Valuation Results and Funding Strategy Statement – Actuary to attend • Contracts Register Monitoring
<p><i>21st March 2017</i></p> <p><i>Pension Fund Committee</i></p>	<ul style="list-style-type: none"> • <i>Quarterly Update pack for 31st December 2016</i> • <i>Business Plan</i> • <i>Investment Strategy Review</i> • <i>Final Actuarial Valuation Report</i> • <i>Funding Strategy Statement</i>
<p>9th May 2017</p> <p>Pension Board</p>	<ul style="list-style-type: none"> • Pension Fund Committee Papers 21st March 2017 • Quarterly Performance Indicators Update pack for 31st March 2017 • Risk Register Review – focus to be determined • Annual Report on Pension Board Activities • Knowledge and Skills Policy Review and Training Needs Annual Review • Pension Fund Annual Accounts Audit • Funding Strategy Statement Review
<p><i>TBC June 2017</i></p>	<ul style="list-style-type: none"> • <i>Quarterly Update Pack for 31st March 2017</i> • <i>Pension Fund Annual Report and Accounts 2016/17</i> • <i>Progress on compliance with TPR Code of Practice</i> • <i>Review of Governance Compliance Statement</i> • <i>Investment Strategy Review Update</i>