



City of Westminster

Committee Agenda

Title:

Pension Board

Meeting Date:

Monday 13th November, 2017

Time:

7.00 pm

Venue:

Room 3.4, 3rd Floor, 5 Strand, London WC2 5HR

Members:

Councillors:

Angela Harvey (Vice-Chairman)
Adnan Mohammed

Employer Representative:

Marie Holmes

Scheme Member
Representatives:

Dr Norman Perry (Chairman)
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 5 Strand 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 any declarations by Members and Officers of the existence and nature of any personal and prejudicial interests in matters on this agenda.

3. MINUTES

To approve the Minutes of the Pension Board meeting held on 6 July 2017.

(Pages 1 - 8)

4. PENSION ADMINISTRATION UPDATE

Report of the Director of People Services.

(Pages 9 - 30)

5. EMPLOYEE SURVEY REPORT

Report of the Director of People Services.

(Pages 31 - 34)

6. MARKETS IN FINANCIAL INSTRUMENT DIRECTIVE 2014/65 (MIFID) UPDATE

Report of the City Treasurer.

(Pages 35 - 64)

7. LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

Report of the City Treasurer.

(Pages 65 - 66)

8. RISK REGISTER AND FORWARD PLAN

Report of the City Treasurer.

(Pages 67 - 88)

9. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

Charlie Parker
Chief Executive
8 November 2017

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Thursday 6th July, 2017**, Rooms 3.6 and 3.7, 3rd Floor, 5 Strand, London WC2 5HR.

Members Present: Dr Norman Perry (Chairman and Scheme Member Representative), Marie Holmes (Employer Representative), Susan Manning (Scheme Member Representative) and Christopher Smith (Scheme Member Representative).

Officers Present: Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions), Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions), Peter Worth (Technical Advisor - Pensions and Treasury), Joanne Meagher (Head of Operational People Services), Sarah Hay (Pensions and Payroll Adviser), Doruntina Shkreli (Payroll, Pensions and Establishment Support Officer) and Toby Howes (Senior Committee and Governance Officer).

Apologies for Absence: Councillor Angela Harvey (Vice-Chairman and Employer Representative) and Councillor Angela Harvey and Councillor Adnan Mohammed (Employer Representative).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 Dr Norman Perry (Chairman and Scheme Member Representative) declared that he held shares in Standard Life Aberdeen, however these were not in property. He did not consider this a prejudicial interest and remained present to consider all items on the agenda.

2.2 Christopher Smith (Scheme Member Representative) declared that he was the Branch Secretary of Unison and had the interests of staff as a whole, however he did not consider this a prejudicial interest and remained present to consider all items on the agenda.

3 MINUTES

3.1 RESOLVED:

That the Minutes of the last meeting held on 6 July 2017 be signed by the Chairman as a correct record of proceedings.

- 3.2 Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions) updated Members on some matters referred to in the minutes. He confirmed that the £178m transfer of assets from the Fund to the London Collective Investment Vehicle (CIV) was undertaken in June 2016. The issue of voting at the London CIV would be looked at further so that the Board could be provided with more information on this. Peter Carpenter advised that all the amendments to the Investment Strategy Statement suggested by the Board had been made. With regard to the Pensions Annual General meeting, Peter Carpenter stated that this was likely to take place in October 2017 after the Annual Benefit Statements had been sent out and there would be further discussions with Lee Witham (Director of People Services) and the Chairman of the Pension Fund Committee before a date and venue was confirmed.

4 SCHEME ADVISORY BOARD SURVEY ON LOCAL PENSION BOARDS

- 4.1 The Chairman introduced the item and advised that he and officers had provided answers to the Scheme Advisory Board's (SAB) survey about the Board and he sought further comments from Members before the survey was submitted.
- 4.2 The Board then went through each question and amended the answers to some of these accordingly, including:
- Question 17: Peter Carpenter confirmed that a Conflict of Interest Register would be created in future.
 - Question 21: The following three examples where the Board is working well would be submitted:
 1. Relations with officers are very productive
 2. Members are provided with all the information they request and are well informed
 3. Members are given a number of training opportunities
 - Question 22: The following two examples would be given concerning where the Board could improve:
 1. All Members should attend meetings regularly.
 2. Greater clarity was needed on what areas the Board should focus on.
 - Question 31: In respect of targets, there should be discussion on whether the Board should be set some SMART targets.
 - Question 37: In respect of improving the working relationship between the administering authority, the Pension Fund Committee and the Board, it was suggested that there should be greater articulation of responsibilities.

- 4.3 Peter Carpenter advised that he would show the Chairman of the Pension Fund Committee the Pension Board's response to the survey before it was submitted to the SAB.

5 WEBSITE REVIEW

- 5.1 Peter Carpenter presented the report and began by stating that the Pension Fund website was reasonably functional but lacked the modern features compared to other such websites. He drew Members' attention to statistics on usage of the site in paragraph 3.6 of the report and it was noted that there had been 276 hits in May, however the figures did not reveal much in the way of wider information. Peter Carpenter advised that the Pension Fund's Communications Strategy sought to ensure that scheme members could undertake pension related matters primarily through electronic means. However, it was a considerable task in keeping the website up to date and further consideration needed to be given as to how to engage pension scheme members more. Peter Carpenter felt that it was important to modernise the website and to increase engagement with scheme members. He emphasised the importance of controlling the content and accuracy of the website and steps should be taken to address this at the earliest opportunity. Peter Worth (Technical Advisor - Pensions and Treasury) added that it was important that the website improved scheme members' ability to use the pension administration service and to allow them the opportunity to provide instant feedback.
- 5.2 Sarah Hay (Pensions and Payroll Adviser) added that although the website was useful in providing a number of forms electronically, the survey would provide the opportunity for scheme members to suggest other ideas. She stated that a number of other local authorities' pension fund websites were similar to the Council's, and although the website could be updated, this would involve higher costs.
- 5.3 During Members' discussion, Christopher Smith stated that Unison used Facebook and Twitter and that consideration could be given to the Pension Fund using these sites and other appropriate social media to promote communication with scheme members.
- 5.4 Peter Carpenter suggested that Capita and Norfolk County Council representatives could be invited to attend a Board meeting to describe the reasons why they had been successful in engaging scheme members through their pension fund websites and what actions they had taken. The Board agreed to this suggestion and concurred that this be added to the work programme for the 29 January 2018 meeting.

6 MEMBERS' PERSPECTIVE OF THE PENSION FUND ADMINISTRATION

- 6.1 Joanne Meagher (Head of Operational People Services) introduced the item that followed a request by the Board at the last meeting for a survey to be produced to seek pension scheme members' views on the current administration of the scheme. A survey had been drafted and the Board was invited to make comments and suggestions.

- 6.2 Doruntina Shkreli (Payroll, Pensions and Establishment Support Officer) then gave a presentation on the draft survey that had been produced by People Services in consultation with Unison and Members.
- 6.3 During the Board's discussions, it was asked how it was intended to circulate the survey, as for example in some schools, some staff were not part of the Local Government Pension Scheme (LGPS). It was suggested that a question could be added asking the reasons for those who had decided to opt out of the pension scheme. It was also queried whether teachers in Adult Education were eligible to join the scheme. In order to promote the scheme member self-service portal, it was suggested that this could be promoted by highlighting it on payslips.
- 6.4 Members also made the following comments and suggestions to specific questions in the survey, including:
- Question 2: It should be emphasised that Surrey County Council (SCC) now administered the scheme in the narrative at the beginning of the survey.
 - Question 3: Replace the word "escalate" with "raise" in the question.
 - Question 4: It was appreciated that the text box allowed respondents the opportunity to elaborate on their experiences of the scheme administration and thus put into context the rating they had given. Providing a drop down menu highlighting the reason for the rating may also be beneficial.
- 6.5 In reply to Members' comments and suggestions, Sarah Hay advised that it would be explained in the narrative of the survey that it applied to the LGPS only. She informed the Board that People Services was working with SCC on improving communications to promote the pension website. In respect of teachers in Adult Education, Sarah Hay advised that they could join the LGPS if they were not eligible for any other pension scheme.
- 6.6 Joanne Meagher welcomed the suggestions made by Members and thanked Christopher Smith for his help whilst drafting the survey.
- 6.7 The Chairman thanked officers for the presentation and the work undertaken on the draft survey and he suggested that pension scheme members be given the opportunity to provide their email address after completing the survey so that they may be more easily contacted on pension related matters in future.

7 REVIEW OF THE FUNDING STRATEGY STATEMENT

- 7.1 Peter Carpenter presented the report and confirmed that the Pension Fund Committee had approved an updated Funding Strategy Statement (FSS) on 21 March 2017. He advised that the FFS set out the aims and purpose of the Fund and other matters such as the responsibility of key partners, target funding levels, valuation assumptions and the underlying funding model, risks and their counter measures and governance, monitoring and review

requirements. Members were informed that the asset allocation model needed to be included in the Investment Strategy Statement.

- 7.2 On behalf of the Board, the Chairman indicated that he was satisfied with the FSS.

8 RISK REGISTER AND FORWARD PLAN

- 8.1 Peter Carpenter confirmed that there had been no changes to the Risk Register over the last quarter. With regard to Risk 25, BT unable to provide monthly interface files, he advised that a recovery plan was now in place. Significant progress had been made over the last 5 months in addressing this issue, however efforts were being made to persuade BT to submit data for the Annual Benefit Statements before 17 August in order to provide SCC with sufficient time to provide the statement to scheme members by the 31 August deadline. In respect to Risk 9 concerning the introduction of European Directive Markets in Financial Instrument (MiFID) II, Peter Carpenter advised that this needed to be updated as the funding situation had now improved, however there were still treasury aspects to look into further.
- 8.2 Sarah Hay added that the interface for 2015-16 had been run successfully and 750 Annual Benefit Statement that were either missing or inaccurate were due to be posted by SCC on 6 July. People Services, SCC and BT were going through the data for 2016-17.
- 8.3 During Members' discussions, the Chairman asked whether data protection was another potential risk and he felt that the governance of the London CIV was also an issue that needed to be looked at. Members also suggested that internal audit reports were another possible area for consideration on the Risk Register.
- 8.3 In reply, Peter Carpenter concurred that the General Data Protection Requirement and governance of the London CIV be added to the Risk Register.
- 8.4 Members then discussed the Board's Forward Plan and it was requested that draft reports for the next meeting be circulated to Members early in order to provide opportunity to comment as the next meeting was not until 13 November. It was agreed that London CIV representatives attend the 13 November meeting and that the pension administration scheme survey results, the annual report on Pension Board activities, the Pensions Administration Review and the Risk Register and Forward Plan also be the items for discussion at this meeting.
- 8.5 Members agreed that items that had initially been listed for the 13 November meeting that would not be discussed on this date be included for the 29 January 2018 meeting, as well as representatives from Capita and Norfolk County Council attending in respect of their pension fund websites as agreed under item 5, Website Review.

8.6 **RESOLVED:**

That the Risk Register and the changes to the Forward Plan be noted.

9 **PENSIONS ADMINISTRATION KEY PERFORMANCE INDICATORS**

9.1 Joanne Meagher presented the report and confirmed that the number of key performance indicators (KPIs) rated red had reduced from 5 to 3 and amber rated ones from 4 to 1 and there had been a steady improvement in KPIs overall in the last 6 months. In respect of deferred benefits sent to scheme members following receipt of leaver notification, this remained a serious concern and SCC had placed more resources in this area to address this, whilst the Council was also providing data where possible. However, as the BT interface was now up and running, it was anticipated that this issue would become less of a concern. With regard to transfers out of non LGPS schemes, Joanne Meagher advised that payments remained 100%, whilst the Council continued to work with SCC to improve performance in respect of responding to scheme members' correspondence. Members also noted that a number of internal audit tests intended to provide assurance on the accuracy and completeness of the pension administration system could not be undertaken due to issues regarding the accuracy of reporting from BT. However, a meeting between People Services and SCC on 15 June had been positive and Joanne Meagher felt that things were moving in the right direction.

9.2 During Members' discussions, Christopher Smith commented that he was receiving fewer complaints on pension scheme administration related matters in his capacity as the Unison representative. The Chairman noted the progress made to date and thanked officers for their efforts in trying to resolve issues, however he asked at what point was it anticipated that there would no longer be any red rated KPIs.

9.3 In reply, Sarah Hay advised that definite progress had been made and although she could state with certainty at what point there would be no red rated KPIs, things were certainly moving in the right direction.

10 **TPR CODE COMPLIANCE**

10.1 Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions) presented the report and advised that Code of Practice no. 14 TPR had been issued by the Pensions Regulator in April 2015 to set out best practice in terms providing practical guidance setting out the standards of conduct and practice expected from administering authorities to manage their public service pension schemes. The TPR included a compliance checklist that considered each section of the TPR and focused on four broad headings, these being:

- Governing your scheme
- Managing risks
- Administration
- Resolving issues

- 10.2 Peter Carpenter then referred to the detailed areas of work set out in the report that were included under each heading and welcomed any comments from Members.
- 10.3 Members noted that the Council was compliant in most areas, apart from conflicts of interest and providing information to Members and Officers which were partially compliant and remedial action was being taken to address this. Peter Carpenter added that he would circulate the “Governing Your Scheme” survey to Members for them to provide their views.

10.4 **RESOLVED:**

That the report and summary TPR compliance checklist be noted.

11 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

- 11.1 The Chairman provided feedback from a recent training event he had attended called “Local Pension Boards – Two Years On” run by Barnett Waddingham. He informed Members that The Pensions Regulator expected Pension Boards to focus on governance, data quality and security, internal controls and communications. The Chairman stated that consideration should be given as to whether Members required secure email accounts. It was usual for the Chairmen of Boards to be independent and to neither represent employer or scheme members. The Chairman requested that Members receive SAB documentation and Sarah Hay replied that People Services would be happy to distribute these. The Chairman added that the Board’s annual report should also be sent to the SAB.
- 11.2 The Chairman also raised the issue of succession planning in respect of Board membership, including the appointment of Deputies and he emphasised the need for all Members to be up to date with their training. Consideration should also be given as to whether other large organisations that were part of the Fund, such as CityWest Homes and the Homes and Communities Agency should be invited onto the membership of the Board. In noting that Members’ three year terms were coming to an end, Members commented that although it was possible some Members may continue, consideration should be given with regard to promoting membership both in terms of potentially replacing existing members and also in extending the membership of the Board.
- 11.3 In reply, Peter Carpenter stated that he would check whether Board membership could be extended. Joanne Meagher suggested that promoting membership could be also be undertaken at the Pensions Annual General Meeting.
- 11.4 On behalf of the Board, the Chairman in noting that Peter Carpenter was leaving the Council, thanked him for all his support to the Board and wished him well for the future.

The Meeting ended at 8.52 pm.

CHAIRMAN: _____

DATE _____



City of Westminster

Pension Board

Date:	13th November 2017
Classification:	General Release
Title:	Pension Administration Update
Report of:	Lee Witham, Director of People Services
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

1.1. This report provides a summary of the performance of the City Council, Surrey County Council, BT and admitted bodies' payroll providers. This report also gives an update on the performance of the pension administrators Surrey County Council (SCC) for the period June 2017 to August 2017. The detailed KPIs are shown in Appendix 1.

2. Surrey County Council (SCC) Performance

- 2.1 The scope of the KPIs in this report have been agreed between WCC and SCC, based on the section 101 agreement, however they will continue to be reviewed on feedback from all parties, including Board members.
- 2.2 This paper covers June, July and August 2017, with the previous 6 months also shown for comparison.
- 2.3 People Services continue to hold regular meetings with SCC to discuss both day to day issues plus any future matters that need to be planned for, such as pension workshops, future re-organisations which may result in bulk leavers/retirements as well as performance against KPIs. We have previously highlighted areas where a need for improvement has been identified and these are reviewed again here against the June to August KPIs. The last review meeting was held on 14 September 2017.

2.3.1. **Retirement options issued to members** – After a big improvement between January and May there has been a slight

dip in this area in the June - August reporting period. Whilst still within an acceptable level it remains an area that will be closely monitored.

- 2.3.2. **Deferred benefits and payment of lump sums** - This area has improved from 85% in the last report up to 100% for the June-August period.
 - 2.3.3. **Transfers out of non-LGPS schemes** - This KPI has also improved for both quotations and payments, now both showing at 100% for the last quarter.
 - 2.3.4. **Transfers in and out of LGPS** - This is a new KPI that was introduced in February and after a small dip in performance earlier this year this has remained at a constant 100%.
 - 2.3.5. **Pension/Redundancy estimates** – In the last quarter there have been very few requested and those that have were completed on time, this KPI is now at 100%.
 - 2.3.6. **Responding to member’s correspondence** – This KPI is now showing at 100%. Jason Bailey SCC Pension Manager has previously advised the Board that they were looking at the re-distribution of work at SCC and we believe the improvement in this KPI is as a result of this change in process. We will however continue to monitor.
- 2.4 The Annual Benefit Statements (ABS) were made available on line for the first time this year by the deadline of 31st August 2017. Credit must be given to the SCC team who despite only receiving the information from BT on 15th August (rather than 30th April) still managed to successfully upload by the deadline.
 - 2.5 Employees were contacted in a number of ways to advise them of the new process with details of how to register for access to the ALTAIR self-service system. Any staff for whom Surrey did not hold an e-mail address were sent a paper ABS with a covering letter advising them how to register for the self service system for future years ABS’s.
 - 2.6 An advertising campaign was also conducted on the council’s Intranet and Yammer pages, which was undertaken by the in house pensions team to strengthen the message that ABS’s would be available on the ALTAIR self-service system the end of August.
 - 2.7 Employee access to ALTAIR will also allow individuals to check personal information held by SCC, such as address, death grant nominations and will also allow employees to run pension estimates.

- 2.8 General feedback on these changes have been positive. SCC have advised that an upgrade to the system will take place in October to improve the appearance of the ABS and enable mobile and tablet access.

3. BT Performance

- 3.1 At the last Board it was reported that BT had presented a LGPS recovery plan on 3rd June which indicated that they would not be able to provide the requisite data in order for SCC on behalf of WCC to issue the ABS by the statutory deadline of 31st August. They were advised at the time that this was not acceptable and a revised plan was issued to ensure that WCC were able to fulfil their statutory requirement. However, it should be noted that although the quality of the file was an improvement on the previous year's file (where we failed, as previously reported to issue a number of ABS statements on time) it still required considerable involvement by both tri borough in-house pension teams and SCC to ensure the data was of sufficient quality to meet the deadline.
- 3.2 The monthly interface reports detailing starters/leavers and changes have now gone live, some 18 months after the BT contract commenced. However the manual leavers forms, detailing pay information that BT are also required to complete when notifying SCC of a leaver, are still not being actioned in a timely manner. Currently the in-house team are completing these forms when the employee is entitled to immediate benefits, to avoid any delay in payments to the individual.
- 3.3 It was reported at the last Board that the outstanding and inaccurate ABS for the 2015/2016 were to be issued by the end of June. I can confirm that these were issued to the affected employees with a written explanation.
- 3.4 The matter regarding the correction payroll for previous year's errors, including pension contributions is still outstanding and high level discussions are still on-going between BT and Directors of the 3 boroughs.

4. Issues Log

- 4.1 People Services continue to meet on a regular basis to review any pension matters that have been referred to the in-house team by individuals, Unison, BT or Surrey.
- 4.2 There are currently 6 issues on the log and no new cases have been raised in over a month. One ill-health case has been closed, 2 cases have gone to IDRPs, one of which has had a full response under this process, the second one is close to closure, the other cases cover transfer ins and also teachers pensionable service queries.

5. Risk Register

- 5.1 Finance will be presenting the risk register to board however it should be noted that Operational Administration reference 25 is now showing as

Amber as both the interface and EOY files have now been provided to SCC by BT.

6. Pension Administration Strategy (PAS)

- 6.1 A Pension Administration Strategy (PAS) sets out the expectations and requirements of all parties involved in the administration of the LGPS, giving clear guidelines to meet both statutory and financial regulations.
- 6.2 Following advice it has been recommended that the PAS should come under the remit of the Pensions Committee rather than the Pension Board. The Committee agreed the PAS at their meeting on 12 October 2017.
- 6.3 The PAS is therefore attached at Appendix 2 for information. It is recommended that this strategy has a 'soft roll out' to the relevant parties, with written warnings rather than fines being issued until a full go live date of 1st April 2018.

7. Summary

- 7.1 There have been improvements by both SCC and BT and People Services will continue to work with both to improve the pension service to members.
- 7.2 The Board is being consulted on the approach to the implementation of a Pension Administration Strategy.

BACKGROUND PAPERS: None

APPENDICES:

- Appendix 1 – Copy of June-August 2017 Actual KPIs
- Appendix 2 – Pensions Administration Strategy

MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

<u>Description</u>	<u>Target time/date as per Partnership Agreement</u>
<u>PENSION ADMINISTRATION</u>	
DEATH BENEFITS	
Notify potential beneficiary of lump sum death	5 days
Write to dependant and provide relevant claim form	5 days
Set up any dependants benefits and confirm payments due	14 days
RETIREMENTS	
Retirement options issued to members	5 days
New retirement benefits processed for payment following receipt of all necessary documents	5 days
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run
REFUNDS OF CONTRIBUTIONS	
Refund paid following receipt of claim form	14 days
DEFERRED BENEFITS	
Statements sent to member following receipt of leaver notification	30 days
DEFERRED PAYMENTS	
Notification to members 3 months before payments due	3 months
Lump Sum (on receipt of all necessary documentation)	5 days
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run

MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

<u>Description</u>	<u>Target time/date as per Partnership Agreement</u>
NEW JOINERS New starters processed	30 days
TRANSFERS IN Non LGPS transfers-in quotations	30 days
Non LGPS transfers-in payments processed	30 days
TRANSFERS OUT Non LGPS transfers-out quotations processed	30 days
Non LGPS transfers out payments processed	30 days
Interfunds In - Quotations	30 days
Interfunds In - Actuals	30 days
Interfunds Out - Quotations	30 days
Interfunds Out - Actuals	30 days
ESTIMATES	
1-10 cases	5 Days
11-50 cases	Agreed with WCC
51 cases or over	Agreed with WCC
MATERIAL CHANGES	
Any changes to data which materially affect actual or potential benefits to be processed within 30 days of receiving all necessary data	30 days

MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

<u>Description</u>	<u>Target time/date as per Partnership Agreement</u>
BUYING ADDITIONAL PENSIONS	
Members notified of terms of purchasing additional pension	15 days
<u>Monthly Pensioner Payroll</u>	
Full reconciliation of payroll and ledger report provided to WCC	Last day of month
Issue of monthly payslips	3 days before pay day
RTI file submitted to HMRC	3 days before pay day
BACS File submitted for payment	3 days before pay day
P35	EOY
<u>Annual Exercises</u>	
ANNUAL BENEFIT STATEMENTS Active members	31 August each year
ANNUAL BENEFIT STATEMENTS Deferred members	31 August each year
P60s Issued to Pensioners	31 May each year
Apply Pensions Increase to Pensioners	April each year
Pensioners Newsletter	April each year
<u>CUSTOMER SERVICE</u>	
<u>CORRESPONDENCE</u>	
Acknowledgement if more than 5 days	2 days
Response	10 days
3rd party enquires	10 days
<u>Helpdesk Enquiries</u>	
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled
<u>Customer Surveys</u>	
Survey to retirees	Percentage Satisfied with Service

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City of Westminster

Westminster Pension Administration Strategy

Contents

1. Introduction

2. Policy Statement

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5. Standard of expected service between the Administering Authority and employers

- Employer targets

6. Pension Administration Strategy - Schedule of Charging

7. Strategy to develop web enabled services for employers

8. Further Information

1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (Westminster City Council), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Westminster acting as Administering Authority (WAA) for the pension fund will treat Westminster the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance with the terms set out in the schedule of charging in Section 6.

2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administering Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administering Authority and Employers
- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
2. To notify each member regarding the counting of membership in the scheme following notification from the members employer of the relevant service details.
3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.
4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.
5. To supply beneficiaries with details of their entitlements including the method of calculation.
6. To set up and maintain a record for each pensioner member.

7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.
8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.
9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Westminster Pension fund website.
10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.
11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.
12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and provide periodical actuarial advice when required.
13. To arrange and manage the triennial valuation of the pension fund.
14. To ensure compliance with the Data Protection Act 1998.
15. The Administering Authority and its agents will respond to queries from employer's external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
16. The Administering Authority and its agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.
17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

Employers

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS.
2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must

determine the proportion which the employees' contractual hours relate to the hours of a comparable full time employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.
4. To determine final pay for the purposes of calculating benefits due from the Scheme.
5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.
6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administrating Authority.
7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administrating Authority and the Scheme member of the decision.
8. To supply timely and accurate information to the Administrating Authority to ensure the correct calculation of benefits payable from the Scheme.
9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.
10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.
11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.
12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Administrating Authority in determining ill health retirement.
13. To repay to the Scheme member any incorrectly deducted employee's contributions.
14. To provide the Administrating Authority with Monthly and Year-end information as at 31 March each year in an approved format.
15. To provide the Administrating Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested. The information should

also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.

16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.
17. To cover any professional costs for legal or actuarial services that are incurred by the administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.
18. Pay the Administrating Authority interest on payments due from the Employer which are overdue by more than one month.
19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Administrating Authority.
20. To ensure compliance with Data Protection Act 1998.
21. The employer and its agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.
23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.
24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website.
<http://www.thepensionsregulator.gov.uk/>

4. Liaison, engagement and communication strategy

The Administrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy.

The policy will include a strategy for communicating with:

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

This policy document will set out the mechanisms that the Administrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Administrating Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Westminster Pension Fund where it can be found under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

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

5. Standard of expected service between the Administrating Authority and the employers

Who *	Administration Description	Performance Targets
	<u>New Starters and Transfers In</u>	
E	<p>New starter: The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website http://www.wccpensionfund.co.uk/</p> <p>Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion.</p> <p>Members must be advised that all necessary forms and contact details are available on the Pension Fund website.</p>	On the first day of the members employment if not provided prior to the start.
E	<p>New scheme member: Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.</p>	Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension.
AA	<p>New scheme member Administrating Authority to create a new pensions record from the completed notification from the Employer.</p>	By the last working day of the month following the data submission by the employer.
AA	<p>New scheme member: Administrating Authority to request a transfer quote from the new member's previous scheme.</p>	Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale.
AA	<p>New scheme member: Administrating Authority to credit member record with membership due from transfer of previous pension benefits.</p>	Within 30 days of receipt of payment from previous scheme.
AA	New Scheme member:	

	Notification of service purchased by an incoming transfer to be provided to the scheme new member.	Within 30 days of receipt of the all the information
	<u>Existing members and schemes</u>	
AA	Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.	Within 30 days of occurrence or receipt of all necessary information, whichever is later.
AA	Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.	Within 30 days of receipt of all necessary information.
AA	Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.	Within 30 days of receipt of all necessary information
AA	The terms of purchasing additional pension to be notified to the member concerned.	Within 15 days of receipt of all necessary information.
AA	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 14 days of receipt of all necessary information
AA	Upon notification of a death notification of a pensioner; arrangements put in place for pension payments to cease immediately.	Within 1 working day of receipt of all necessary information
AA	Letters will be sent to next of kin or other relevant party.	Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information.
	Setting up of any dependents pension.	Within 14 days of receipt of all necessary information.

	<u>Leavers and Transfers out</u>	
E	Leaver: Employer to send the Administrating Authority a completed leaver notification.	By the Last working day of the month following the month in which the members final pensionable pay was processed.
AA	Leaver: Administrating Authority to issue a statement of deferred benefits as appropriate.	Within 30 days of receipt of all necessary information.
AA	Leaver: Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV).	Within 30 days days of receipt of all necessary information.
E	Retirements: Employer to send the Administrating Authority a completed notification.	By the final working day of the month in which the members final pay is processed but employers should be looking to provide leavers

		final details to SCC before the member leaves if possible to do so.
AA	Retirements: Adminstrating Authority to send benefit options to member together with relevant forms required for payment of retirement benefits.	Within 5 working days of receiving notification from the Employer.
AA	Retirements: Adminstrating Authority to arrange the payment of Lump Sum.	Within 5 working days of receiving all required information from the Employer and the Member.
AA	Retirements: Adminstrating Authority to arrange payment of Annual Pension (paid monthly).	The pension to be processed on the next available pay period following the release of any lump sum and the member notified in writing.
AA	Deferred Benefits Into Payment: Adminstrating Authority to send a letter to the leaver that includes the benefits that are payable and/or the options for early payment (together with relevant forms to enable payment).	Within one month of the potential due date of any benefit into payment SCC will write to the member.
	<u>Deductions</u>	
E	Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.
	<u>Pensioners</u>	
AA	Payslips: Every pensioner to receive a monthly pension advice payslip in the months of April and May. Thereafter, a hard copy payslip will be generated only where the net pension alters by ten pounds (£5) or more from the previous month.	Pensioners can access all their payslips via the member self-service option on the website. http://www.wccpensionfund.co.uk/ 3 Working days prior to pay day.
AA	Increases: Notify the pensioners of the increase and its effect on their pension by standard letter.	In the month of the payment increase.
	<u>Advisory & Communications</u>	
AA	Contact centre Answer phone calls and deal with queries from members and employers.	On working days between the hours of 9.00 am and 5.00 pm.
	<u>Complaints</u>	
AA	All complaints to be acknowledged. A full written response to a complaint must be sent to the complainant.	Within 5 working days. Within 20 working days of its receipt by Surrey, subject to all necessary information being available to Surrey to enable a full response to be given.

* Body responsible for the action

6. Pensions Administration Strategy - Schedule of Charging

Westminster acting as Administering Authority (**WAA**) wishes to support its fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members. That pension can be processed quickly and accurately when required and that WAA and its employers all meet their statutory obligations.

Where additional costs have been incurred by the Administering Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administering Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.
- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services.
- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administering Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employers' data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure its own compliance which will be reported on to the Pension fund Committee and the Pension board. WAA will also seek evidence from SCC of employer compliance with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

Administration Description	Performance Targets	Charge
<u>New Starters and Transfers In</u>		
New scheme member: Employer to send to the Administrating Authority the details of the new member.	Within 25 working days after the start date.	£50 per case
<u>Leavers and Transfers out</u>		
Scheme Leaver: Employer to send the Administrating Authority a completed leaver notification.	Within 25 working days from the employee's last day in the Scheme.	£50 per case
Retirements: Employer to send the Administrating Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
<u>Deductions</u>		
Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority. Payment of Other Sums Due: Employers should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date.	By the 19th day of the month following the month in which contributions were deducted.	£100 per instance of late payment.

7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an on line portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

8. Further Information

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Pensions and Payroll Officer

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Pension Board

Date:	13th November 2017
Classification:	General Release
Title:	Employee Survey Report
Report of:	Jo Meagher Head of Operational People Services
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

- 1.1 This report provides the results of the employee survey that was presented and agreed at the last Pension Board which was held on 6th July 2017

2. The Survey

- 2.1 The survey was promoted on the Council's Intranet during September, it was specifically timed to coincide with the release of the Annual Benefit Statements that were issued on 31st August.
- 2.2 A download of the survey and the results are attached at Appendix 1.
- 2.3 Only 24 people took part in the survey which is lower than we had expected.
- 2.4 Questions 2 deals with employee's interaction with the various pension teams involved in the administration of the scheme, 14 people have had contact with either BT or SCC with 7 of these employees raising their issue further with the in house team. Question 3 asks these 14 people to rate their interaction with the teams and the answers here are disappointing with an average score of under 3/10 for each of the 3 areas.
- 2.5 Whilst this is disappointing by the very nature of surveys they do tend to be completed by individuals who have had a negative experience and the

question asked for any interaction with no time limit specified so these 14 individuals may have had issues that covered a large period of time.

- 2.6 To address the issues in questions 2/3 Surrey have re-arranged how they deal with all initial interactions from LGPS members both current and deferred and have additional staff now involved in trying to respond to the majority of queries, with only the more complex issues being escalated to pension advisors within their team. It would be fair to say that BT continue to have issues in relation to pension matters however they have recruited a senior member of staff to ensure that this aspect of the BT service is also being addressed. The WCC in house team fair only slightly better although the majority of issues when they are brought to the in house team's attention tend to be complex in nature and can take some time to resolve. To address this a query log has been created and weekly meetings are held to ensure that these cases remain on track.
- 2.7 Questions 5-7 were drawn up to establish whether employees were aware of the member self-service portal, its functionality and also if they were aware of the other aspects/benefits of the pension scheme. Employee awareness here was quite high especially in relation to death in-service and ill-health pension. Only 11 employees were aware of the 50/50 scheme. The LGPS recently undertook a direct survey in relation to the 50/50 scheme as the engagement of this scheme has not proved that popular (as at October 2017 WCC currently has 26 employees participating in the 50/50 scheme as opposed to 1923 in the full scheme).
- 2.8 Questions 8-9 ask how any employee would like to be engaged in relation to their pension membership. The responses to this are spread fairly evenly across a number of engagement methods and over the next few months the in house team will work with Surrey to provide a schedule of pension surgeries and drop in sessions. As all Annual Benefit Statements are now available on line via the self-service portal SCC now have e-mail addresses for the vast majority of current staff and we will be able to utilise this data potentially for any future correspondence.
- 2.9 The results of this survey will also be shared with SCC and discussed at the next scheduled contract meeting on 23rd November.
- 2.10 In order to continuously monitor people's views, and their understanding and perception of the LGPS we will keep the survey live on our intranet and will look at adding a link to the survey on any correspondence sent to employees in relation to pension administration.

3. Summary

- 3.1 The uptake of this survey is disappointing but the issues raised especially on the interaction with the various pension teams is being addressed and the methods of engagement will be fully considered when programming pension sessions over the next few months.

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City of Westminster

Pension Board

Date:	13 November 2017
Classification:	General Release
Title:	Markets in Financial Instrument Directive 2014/65 (MiFID) Update
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no immediate financial implications arising from this report.
Report of:	Steven Mair City Treasurer smair@westminster.gov.uk 020 7641 2904

1. Executive Summary

1.1 This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the Council as a pension fund administering authority of becoming a retail client on 3rd January 2018 and updates the Board on the action being taken to elect for professional client status on behalf of the Authority.

2. Recommendations

2.1 The Board is asked to note the action being to elect to opt up to professional client status on behalf of the Authority in respect of the pension fund.

3. Background

3.1 Under the current UK regime, local authorities are automatically categorised as per se professional clients in respect of non-MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt

up to elective professional client status if they fulfil certain 'opt-up criteria'.

- 3.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II"), with effect from 3 January 2018 firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a "per se professional client" or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted-up by firms to an "elective professional client" status.
- 3.3 Furthermore, the Financial Conduct Authority (FCA) has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

4. Potential impact

- 4.1 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. This includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. Whilst this provides a higher standard of protection for the client, it also involves more work and potential cost for both the firm and the client, in order to prove to the regulator that all such requirements have been met.
- 4.2 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the local government pension scheme (LGPS) are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
- 4.3 Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under FCA rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

5. Election for professional client status

- 5.1 MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two

tests which must be met by the client when being assessed by the financial institution. the quantitative and the qualitative test.

- 5.2 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.
- 5.3 The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached at Appendix 2.
- 5.4 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.
- 5.5 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.
- 5.6 A flowchart of the process is attached at Appendix 3 and the letter and information templates are attached at Appendices 4 and 5
- 5.7 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
- 5.8 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority's investment advisor was terminated.

6. LGPS pools

- 6.1 LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.
- 6.2 In some circumstances, in particular where the pool only offers access to fund structures such as Authorised Contracted Schemes (ACS) the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.
- 6.3 Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions the number of which would reduce as assets are liquidated and cash transferred.

7. Next steps

- 7.1 In order to continue to effectively implement the Pension Fund Committee's investment strategy after 3rd January 2018, applications for election to be treated as a professional clients need to be submitted to all financial institutions with whom the Council has an existing or potential relationship with in relation to the investment of the pension fund.
- 7.2 In order to ensure completion of the opt-up application process in good time and avoid the need for appropriate action to be taken by institutions in relation to the Authority's pension fund investments, the Pension Fund Committee authorised the delegation of authority to the Tri-Borough Director of Pensions and Treasury to make applications on the Council's behalf.
- 7.3 The opt-up application process has highlighted the need for regular training for Board and Committee Members and to this end an annual programme will be established.

Peter Worth

Interim Tri-Borough Director of Pensions and Treasury

Contact officer: Peter Worth, interim Tri-Borough Director of Pensions and Treasury

Tel: 07714 333240 **E-mail:** pworth@westminster.gov.uk

BACKGROUND PAPERS: None

APPENDICES:

- Appendix 1 – Retail client protections
- Appendix 2 – Summary of FCA policy statement
- Appendix 3 – Opt up process flowchart
- Appendix 4 – Opt up letter template
- Appendix 5 – Opt up information template

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Peter Worth pworth@westminster.gov.uk or 020 7641 7689

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Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. Communicating with clients, including financial promotions

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. Information about the firm, its services and remuneration

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. Suitability

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. Appropriateness

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. Dealing

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. Reporting information to clients

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. Client reporting

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. Financial Ombudsman Service

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. Exclusion of liability

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. Trading obligation

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document <https://www.fca.org.uk/publication/policy/ps17-14.pdf>

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or

respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.

2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.⁴⁷

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

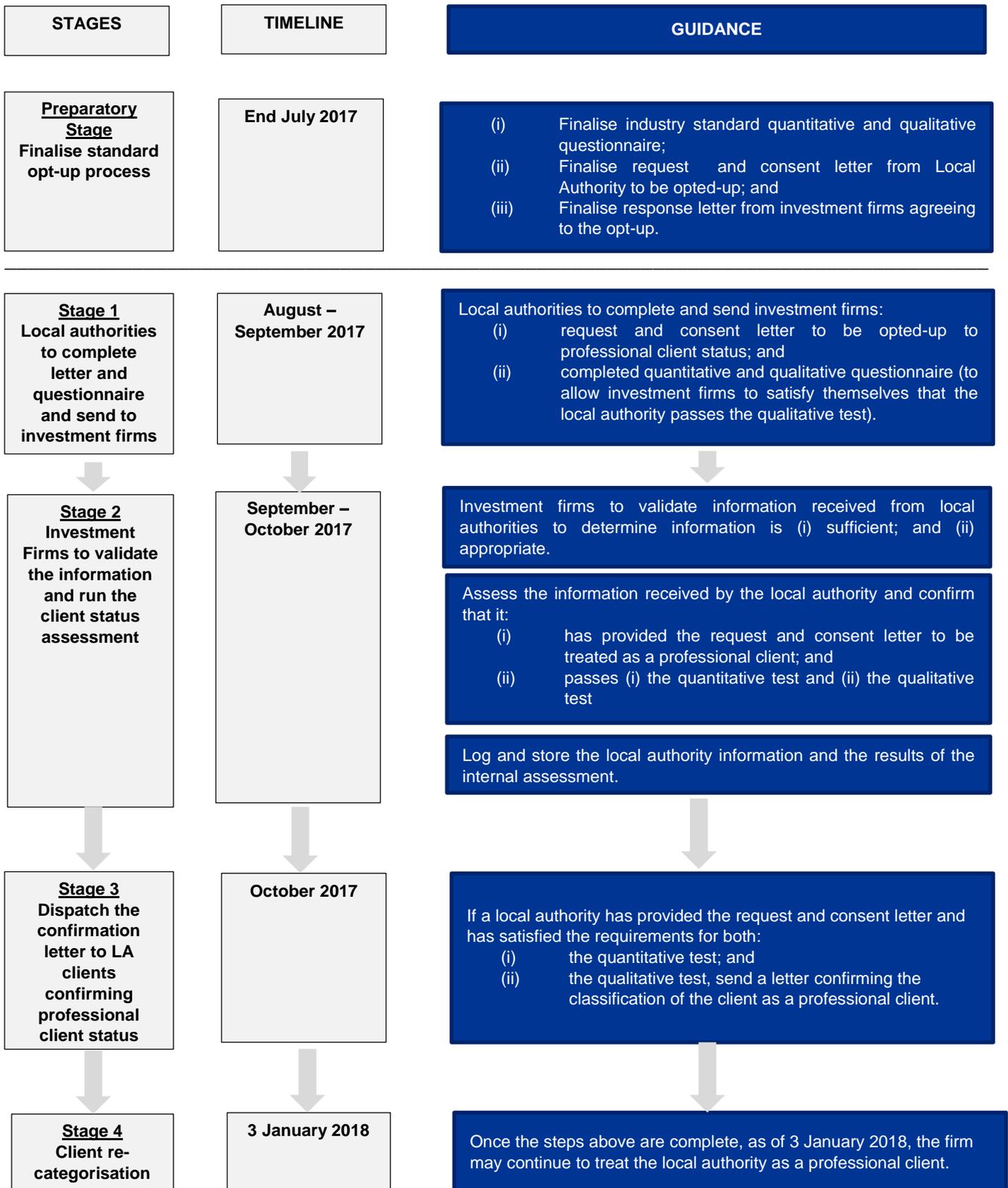
MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to

opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process



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Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by **NAME OF AUTHORITY** (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

- (a) its request to be categorised as a Professional Client, in its capacity as an administering authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.
- (b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority’s request to be categorised as a Professional Client) is true, accurate and complete.

- (c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.
- (d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.
- (e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.
- (f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

.....

[insert name and position] [Authority]

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

- (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;
- (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. Fund promotion

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. Non-mainstream pooled investments

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. Communicating with clients, including financial promotions

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. Financial Ombudsman

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY: _____

CAPACITY: As administering authority of the local government pension scheme

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE: _____

DATE: _____

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
<p>(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme exceed GBP 10,000,000?</p> <p>Portfolio size _____ as at date:</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i>	
<p>(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least 10 per quarter for the previous four quarters (i.e. at least 40 investments on the relevant market in the last year)?</p> <p>Transaction total:</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>
<p>(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?</p> <p>Details of role:</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>

QUALITATIVE TEST

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**¹.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.
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a	All decisions delegated to committee or sub-committee. <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/> Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
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3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

¹ COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters? <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.		hours offered hours delivered
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.		hours
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.		hours
6	Are members required to complete a self-assessment with regard to their knowledge of investments? <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member		years
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
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Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed	<input type="checkbox"/>
		Link	<input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES	<input type="checkbox"/>
		NO	<input type="checkbox"/>

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	<p>Does the authority have a risk framework and/or risk management policy in place in relation to investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
2	<p>Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?</p> <p>If yes, please provide the name of the advisor:</p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
3	<p>Is the risk framework/policy reviewed on a regular basis?</p> <p>If YES please state the frequency of the review.</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the last review)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
4	<p>Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
5	<p>Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
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Job title	Relevant qualifications	Years experience in role ²

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
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Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers? <i>(Please tick whether you have enclosed or provided a link to details of the succession plan)</i>	YES NO	<input type="checkbox"/> <input type="checkbox"/>
		Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>

4.	For each <u>individual investment advisor</u> used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
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Name	Relevant qualifications	Years experience in role ³

² Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

³ Or similar role which would provide knowledge of the provision of the services envisaged.

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role ⁴

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities. YES NO

⁴ Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? <i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i>	YES NO Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
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2.	Please use the box below to provide any further information which may be useful in the support of your application.
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City of Westminster

PENSION BOARD

Date:	13 November 2017
Classification:	General Release
Title:	London Collective Investment Vehicle Update
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no financial implications arising from this report.
Report of:	Steven Mair City Treasurer smair@westminster.gov.uk 020 7641 2904

1. Executive Summary

- 1.1 At the last Pension Board on 6 July 2017, the Board requested an update from the London Collective Investment Vehicle (CIV) on recent progress regarding on-boarding of new funds, and the development of wider investment options available to City of Westminster Pension Fund (CoWPF) within the London CIV.
- 1.2 Chloe Crouch and Larissa Benbow from the London CIV will verbally update the Board on recent progress.

2. Recommendation

- 2.1 That the update from the London CIV is noted.

3. Background

- 3.1 CoWPF is one of the largest contributors to the London CIV, with £537m directly invested as at 31st March, which was over 10% of assets under the management of the CIV.
- 3.2 Including the Legal and General mandate held outside the London CIV but procured collectively, the total is £820m or 65% of the total net assets of the Fund as 31 March 2017.
- 3.3 CoWPF is currently running a procurement exercise for a fixed income “buy and maintain” strategy, and is working closely with the London CIV

who are also in the late stages of procuring their own fixed income managers across multiple areas.

- 3.4 The London CIV is also in the exploratory stages of procuring an infrastructure manager. CoWPF has representation on the working group and will assist the London CIV in manager section. CoWPF has an allocation of 5% to infrastructure that it is envisaged can be invested with the London CIV option.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Matt Hopson mhopson@westminster.gov.uk or 020 7641 4126

BACKGROUND PAPERS: None

APPENDICES: None



Pension Board

Date:	13 November 2017
Classification:	General Release
Title:	Risk Register and 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 Two additional risks have been added to the register at number 10 Strategic Regulation: Markets in Financial Instruments Directive II (MIFID II) under the heading and 27 under Administrative Operational: Data Protection. Risk number 26 (formerly 25) has been modified due to improvement in aspects of service delivery. The forward plan has also been amended to include two updates on MIFID II in the November 2017 and January 2018 meeting cycles.

2. Recommendation

- 2.1 The Board is asked to note the changes to the risk register and the forward plan.

3. Risk Register Monitoring

- 3.1 The Financial Conduct Authority (FCA) published its final policy statement on the implementation of Markets in Financial Instruments Directive II (MIFID II) in July 2017. Pension Funds are required to apply to the financial institutions with which it does business to be treated as a 'professional client'. MIFID II comes into effect on 3 January 2018. Item 10 has been added to the register to consider the implications of missing the deadline or the decline by any of the financial institutions of an application to be treated as a professional client. The requirements and impact of MIFID II is

explained in more detail in Agenda item 7 'MIFID II Update'. Risk rating for number 26 has also been changed from high to medium.

- 3.2 Data protection has also been added to the risk register to monitor the handling of personal data in accordance with the requirements of the Data Protection Act. The risk register is attached at Appendix 2.

4. Forward Plan

- 4.1 The forward plan has been reviewed and amended to include a review of the Administration Strategy and Policy in the January 2018 meeting and a review of compliance with the Pension Regulators and Scheme Advisory Board requirements for the November meeting.
- 4.2 The updated forward plan is attached at Appendix 3.

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

Yvonne Thompson- pensionfund@westminster.gov.uk Tel: 020 7641 6925

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BACKGROUND PAPERS: None

APPENDICES:

- Appendix 1 – Pension Fund Risk Register Scoring Matrix – October 2017
Appendix 2 – Pension Fund Risk Register – October 2017
Appendix 3 – Pension Board Forward Plan – October 2017
Appendix 4 – Pension Fund Committee Forward Plan – October 2017

Appendix 1 - Tri Borough Risk Management Scoring Matrix

Scoring (Impact)

Impact Description	Category
1 Very Low	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
2 Low	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
3 Medium	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
4 High	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
5 Very High	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery

Scoring (Likelihood)

Descriptor	
1. Improbable, extremely unlikely	
2. Remote possibility	
3. Occasional	
4. Probable	
5. Likely	

Description
£0 to £25,000
Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
Minor short term damage to local area of work.
Decrease in perception of service internally only – no local media attention
Failure to meet individual operational target – Integrity of data is corrupt no significant effect
£25,001 to £100,000
Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
Localised decrease in perception within service area – limited local media attention, short term recovery
Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
£100,001 to £400,000
Permanent disability or injury or illness
Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
£400,001 to £800,000
Individual Fatality
Borough wide damage with medium or long term effect to local ecology or community
Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
£800,001 and over
Mass Fatalities
Major harm with long term effect to regional ecology or community
Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Likelihood Guide
Virtually impossible to occur 0 to 5% chance of occurrence.
Very unlikely to occur 6 to 20% chance of occurrence
Likely to occur 21 to 50% chance of occurrence
More likely to occur than not 51% to 80% chance of occurrence
Almost certain to occur 81% to 100% chance of occurrence

Appendix 2: Pension Fund Risk Register, October 2017

Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale
New risk added to Strategic: Governance	10	Failure to meet the deadline or rejection of MIFID II 'opt up' application resulting in reclassification of fund from professional to retail client impacting Fund's investment options and an increase in costs	More information is now available about MIFID II which indicates that failure to meet the deadline for opting up or refusal of an application with any counterparty would result in the automatic reclassification of the Pension Fund as a retail client. This could result in costly transition of funds as our current counterparties are not authorised to conduct business with retail clients.
Risk rating high to medium	26	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 valuations and notifications to starters and leavers.	BT have provided the EOY file on time and the monthly reports are being provided.
New risk added to Operational Administration:	27	Data protection procedures non-existent or insufficient leading to poor security for member data.	There is a requirement under the Data Protection Act for organisations to follow specific controls on handling personal data.

Pension Fund risk register, October 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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	5		Low 10 	City Treasurer	December 2017
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	4		Medium 12 	City Treasurer	December 2017
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	5		Low 10 	City Treasurer	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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. 	3	4		Medium 12 	City Treasurer	December 2017
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. 	1	4		Low 4 	City Treasurer	December 2017
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. 	3	4		Medium 12 	City Treasurer	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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		4	Low 8 	City Treasurer	December 2017
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	3		Low 9 	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
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 the Local Government Association and 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. 	3	5		Medium 15 	City Treasurer	December 2017
10	STRATEGIC: REGULATION Failure to meet the deadline or rejection of MiFID II 'opt up' application resulting in reclassification of fund from professional to retail client impacting Fund's investment options and an increase in costs	<ul style="list-style-type: none"> Officers are engaging with LGA and keeping abreast of FCA deadline Officers are engaging with Fund managers and other counterparties to understand their requirements Early gathering and assessment of the evidence for submission. Use of CIPFA approved database to submit applications. Contingency plan for assets. 	3	5		Medium 15 	City Treasurer	December 2017

11	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	4		Low 8 	City Treasurer	December 2017
12	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	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
13	<p>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.</p>	<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		<p>Low</p> <p>9</p> 	City Treasurer and Director of People Services	December 2017
14	<p>OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.</p>	<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	4		<p>Low</p> <p>8</p> 	City Treasurer	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
15	<p>OPERATIONAL: GOVERNANCE London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.</p>	<ul style="list-style-type: none"> Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 	2	4		<p>Low 8</p> 	City Treasurer	December 2017
16	<p>OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.</p>	<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	4		<p>Medium 12</p> 	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
17	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. 	2	2		Low 4 	City Treasurer and Director of People Services	December 2017
18	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	1		Low 2 	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
19	<p>OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.</p>	<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	4		<p>High</p> <p>16</p> 	City Treasurer and Director of People Services	December 2017
20	<p>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.</p>	<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. 	2	5		<p>Low</p> <p>10</p> 	City Treasurer and Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
21	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		5	Low 10 	City Treasurer	December 2017
22	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	Low 5 	Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
23	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 	Director of People Services	December 2017
24	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	Low 5 	Director of People Services	December 2017

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
25	<p>OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	<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. 	3		3	<p>Low</p> <p>9</p> 	Director of People Services	December 2017
26	<p>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 valuations and notifications to starters and leavers.</p>	<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 	3		5	<p>Medium</p> <p>15</p> 	Director of People Services	December 2017

27	Operational: Administration Data protection procedures non-existent or insufficient leading to poor security for member data	<ul style="list-style-type: none"> • The Council has a data protection policy • Staff trained in data protection and regularly reminded of its importance. • Use of secure platforms to exchange sensitive information • secure waste bins for disposal • and password protections 	2		5	Low 10 	City Treasurer/ Director of People Services	Director of People Services
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PENSION BOARD Forward Plan – July 2017

Area of work	6 July 2017	13 November 2017	29 January 2018	May (TBC) 2018
Standing Items	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan
Governance	Annual Report on Pension Board Activities TPR code of practice compliance Website Review	2018/19 Meeting Dates Knowledge & Skills Policy and Training Needs Annual Review Scheme Advisory Board Compliance	Contracts Monitoring	Appointment of the Chair / Vice Chair Training Update
Pensions Administration	Annual Benefit Statement Timeline Pensions Administration Strategy Review Discretionary Policies Review	Promotion of Scheme Membership Admissions Policy Review	Pensions Administration Strategy Admission Policy Review	

Area of work	6 July 2017	13 November 2017	29 January 2018	May (TBC) 2018
Finance	Pension Fund Annual Accounts and Audit Findings Funding Strategy Statement Review Pension Fund Fees and Costs	Review of Pension Fund Annual Report Asset Pooling Progress and Review Relationship with CIV MIFID II Update	MIFID II Update	Asset Pooling Progress and Review