

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

## 1. Executive Summary

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

## 2. Key Matters for the Board

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

### 3. Detail

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

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

#### Employer Representatives:

Cllr Peter Cuthbertson (Chairman)  
Cllr Adnan Mohammed  
Marie Holmes

#### Employee Representatives:

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

3.3 Terms of reference

Please see Appendix A

3.4 Training undertaken

Please see Appendix B

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

#### 27 July 2015

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

## Key Documents

### 19 October 2015

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

### 18 January 2016

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

### 10 May 2016

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

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

### 18<sup>th</sup> January 2016

Operational Administration – Failure of Financial System

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

#### 10<sup>th</sup> May 2016

##### Strategic – Pensions Regulation and Regulation Changes

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

##### Strategic – Introduction of European Directive MiFID II

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

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

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

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

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

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

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

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

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

#### **4. RECOMMENDATIONS**

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

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

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

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**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix A – Pension Board Terms Of Reference

Appendix B – Pension Board Training