

**City of Westminster Pension Fund**  
**Pension Board Annual Report 2015-16**

**1. Background**

- 1.1 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.
- 1.2 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 and during the year at least one Board member has attended each Committee meeting. 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 as part of 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. The actuary will be invited to attend the Pension Board meeting in February 2017 to brief the Board on the valuation results and Funding Strategy Statement.

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 No specific recommendations have been raised by the Pension Board during 2015-16.

## Appendix A

### **Terms of Reference – City of Westminster Pension Board March 2015**

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

1. Role of the Local Pension Board

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

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

2. Membership

a. Appointment process

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

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

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

b. Quorum

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

c. Chairman of the Board

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

d. Substitute members

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

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

e. Periods of office

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

f. Termination

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

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

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

3. Board meetings

a. Frequency of meetings

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

b. Voting rights

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

c. Notice and circulation of papers

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

d. Minutes

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

e. Secretariat service

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

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



meeting of the Pension Committee. The Pension Committee's response to the recommendation will be reported to the next meeting of the Pension Board.

## Appendix B

### Pension Board Training 2015-16

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