



City of Westminster

Committee Agenda

Title:

Pension Board

Meeting Date:

Monday 18th January, 2016

Time:

6.30 pm

Venue:

Rooms 1A, 1B & 1C - 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP

Members:

Councillors:

Peter Cuthbertson (Chairman) Employer Representative
Adnan Mohammed Employer Representative

Employer Representative:

Marie Holmes

**Scheme Member
Representatives:**

Dr Norman Perry (Vice-
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 City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.



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

**Tel: 020 7641 8470; Email: thowes@westminster.gov.uk
Corporate Website: www.westminster.gov.uk**

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

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

To note any changes to the Membership.

2. DECLARATIONS OF INTEREST

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

3. MINUTES

To approve the Minutes of the Pension Board meeting held on 19 October 2015.

(Pages 1 - 8)

4. MINUTES OF PENSION FUND COMMITTEE

To note the minutes of the Pension Fund Committee meeting held on 16 November 2015.

Minutes to follow.

5. RISK REGISTER REVIEW

Report of the City Treasurer.

(Pages 9 - 24)

6. PENSION ADMINISTRATION - COSTS UPDATE

Report of the Director of Human Resources.

7. TRAINING UPDATE

Report of the Director of Human Resources.

8. PENSION FUND BENCHMARKING - COSTS

The Board to receive a verbal update.

9. AUDIT ARRANGEMENTS
Report of the City Treasurer.

(Pages 25 - 30)

10. DATA FOR THE TRIENNIAL VALUATION UPDATE
Report to follow.

11. PENSION BOARD FORWARD PLAN 2016-2017
To consider the Pension Board Forward Plan 2016-2017.

(Pages 31 - 32)

12. DATE OF NEXT MEETING
To consider the date of the next Pension Board meeting.

13. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

14. MINUTES
To approve the confidential minutes of the Pension Board meeting held on 19 October 2015.

15. MINUTES OF THE PENSION FUND COMMITTEE
To note the confidential minutes of the Pension Fund Committee meeting held on 16 November 2015.

Minutes to follow.

Charlie Parker
Chief Executive
8 January 2016

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Monday 19th October, 2015**, Room 5 - 17th Floor, City Hall.

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

Officers Present: Carolyn Beech (Director of Human Resources), Nikki Parsons (Pension Fund Officer), Neil Sellstrom (Tri-Borough Pensions Team), Trevor Webster (Senior HR Manager) and Toby Howes (Senior Committee and Governance Officer).

1 MEMBERSHIP

1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

2.1 Clarification was sought as to whether there was any conflict of interest arising from Councillor Adnan Mohammed's position as the Deputy Cabinet Member for Finance and Corporate Services. Carolyn Beech (Director of Human Resources) advised that a conflict of interest would only likely arise if Councillor Mohammed had any involvement in the Pension Scheme itself, however this would be unlikely for the position that he held. Carolyn Beech agreed to provide final clarity on this matter and report back to the Board.

2.2 Councillor Peter Cuthbertson, in noting that some investments in the Pension Scheme involved tobacco companies, declared that he works for an organisation involved with nicotine vaping products, which some smokers use move to away from tobacco products. However, he did not regard this as a prejudicial interest and remained present to Chair the meeting and consider all items on the agenda.

3 MINUTES

3.1 RESOLVED:

That the Minutes of the meeting held on 27 July 2015 be signed by the Chairman as a correct record of proceedings.

- 3.2 It was agreed that in future, the Minutes of the Pension Board meetings would be circulated to Members once they had been approved by the Chairman.

4 PENSION FUND COMMITTEE AGENDA FROM 8 SEPTEMBER 2015

- 4.1 The Board had before them papers of the last Pension Fund Committee meeting that took place on 8 September. In respect of the item on the Admission Agreement for Sanctuary Housing, the importance of researching materials in the report prior to the meeting was emphasised in order to prevent unnecessary discussion at the meeting. A member commented that he was satisfied with the Committee's challenging of the material that had been presented to them and of the Fund's performance. Another Member queried whether the Committee received sufficient information for the admitted bodies reports. A Member stated that synergy between the Committee and the Pension Board could be strengthened if Board Members attended the same workshops as Committee Members. Members concurred that attending Pension Fund Committee meetings and workshops did add value for Board Members.
- 4.2 Carolyn Beech emphasised that the Pension Fund Committee took its responsibilities very seriously. In respect of admitted bodies, the Fund had incurred costs three years previously when an admitted body went out of business and so the Committee wanted to receive assurance on such matters. It was noted that authority to admit bodies to the Pension Scheme was now delegated to the City Treasurer.
- 4.3 Members agreed to Neil Sellstrom's (Tri-Borough Pensions Team) suggestion that future Board agendas include the list of agenda items only and the approved minutes of the previous Pension Fund Committee meeting, as the Board already received the full set of Pension Fund Committee papers upon date of publication.

5 PENSION BOARD INDEMNITY INSURANCE

- 5.1 The Board received the report and noted the confirmation that Board Members were covered by the Council's Indemnity Insurance Scheme.

6 RISK REGISTER SCORING MATRIX

- 6.1 The Board had before them a report and appendices, including the detailed Risk Register Scoring Matrix. It was noted that this item was a standing item on the Pension Fund Committee agenda. The Board enquired how often did the Risk Register change. In reply, Neil Sellstrom advised that changes were regular and that a future report could include a covering report highlighting

where these changes were. The Board agreed that it continue to receive reports on the Risk Register Scoring Matrix, including highlighting any changes. Members also agreed to the suggestion from Nikki Parsons (Pension Fund Officer) that focus be given to a different section of the Matrix at each meeting.

- 6.2 Members sought further information with regard to a risk 18 identified in the report concerning an operational administration issue relating to failure of financial system. In reply, Nikki Parsons advised that the matter was being looked at on a tri-borough basis and had meant that some scheme members had not received payments in time. However, the risk's impact had only been rated as three because of the relatively small amount of money involved. Neil Sellstrom added that the issue had arisen because of changes to financial systems and that it should be resolved once all systems were working correctly. Carolyn Beech advised that a lack of a suitable interface between Agresso and Surrey County Council's financial systems had been a contributing factor to the issue arising, however the risk would be much lower when the system was fully embedded and the need for faster payments would be overcome. She also advised the Board that a meeting was due to take place with BT on 21 October to discuss payment issues, including pension scheme payments.
- 6.3 The Board acknowledged that most risks were either classified as low or medium but beyond the Council's control, however risk 18 was something it could address. Members enquired how the risk rating would be reflected if for example a scheme member had not been paid for two months. Members also felt that there should be a set time frame in place in which to resolve payment issues. In reply, Nikki Parsons advised that manual payments could be raised where the usual payment process had failed to pay scheme members.
- 6.4 The Board requested an update on the Risk Register Scoring Matrix at the next meeting, highlighting major changes and focusing on a particular section of the matrix.

7 PENSION ADMINISTRATION CONTRACT COST

- 7.1 Members received a confidential report on Pension Administration Costs and discussed how further savings could be made.

8 COMMUNICATIONS AND ENGAGEMENT UPDATE

- 8.1 The Board expressed its satisfaction in the Pension Board Communications Update report and the Human Resources pensions engagement strategy.

8.2 RESOLVED:

That the Human Resources pensions engagement strategy for the period 1 October 2015 to 31 March 2017 be noted.

9 DATA SHARING UPDATE

9.1 The Board had before them an update on data sharing.

9.2 RESOLVED:

1. That the performance standards as detailed in the Section 101 Agreement be noted.
2. That the need for further work to be carried out to prioritise the monitoring of the standards from the list and to control costs that must be agreed in collaboration with the Bi-Borough Councils (who were on-boarded into a similar agreement with Surrey County Council on 1 September 2015) be recognised.

10 PENSION BOARD TRAINING STRATEGY UPDATE

10.1 Members had before them an update on the Pension Board Training Strategy. Members emphasised the need for the training to ensure that the Board could take a proactive role and to plug any knowledge gaps for Members. Topics such as benchmarking, public service governance and administration were particularly useful for the Board and it was suggested that these be included for the training in January 2016. In respect of the knowledge and skills assessment, a Member stated that she needed more information in respect of the contract with Surrey County Council in administering the Pension Scheme and she enquired whether Members should be identifying other areas where they felt they needed more knowledge. Another Member felt he needed more information on pension law. It was commented that some local authorities' Pension Boards would receive up to six weeks training and it was suggested that a list of training topics be drawn up and shown to the Board and also the Pension Fund Committee. Other areas that Members suggested they needed training in included pensions accounts, auditing, standards and actuaries and training through e-learning.

10.2 In reply to the issues raised, Trevor Webster (Senior HR Manager) advised Members to identify their training needs at this stage. A training plan would then be drawn up and further training would commence from January 2016, including subject specific training such as regulatory changes, triennial valuations and annual refresher training. He stated that a number of different ways of delivering the training could be explored to ensure that it was undertaken in the most appropriate way, such as training in small groups, day and evening sessions, e-learning, bite size sessions, conference calls and informal sessions. Trevor Webster advised that Members would also receive a link to the learning management system so that they could record the training they had undertaken. He added that training slides could also be made available online.

10.3 Neil Sellstrom added that Surrey County Council appointed lawyers to ensure the Pension Scheme met legal requirements and that the Pension Board regulators had an online training toolkit. He advised that the creation of

Pension Boards had only been agreed in 2014 and so local authorities were in the process of collating their training needs for Board members.

10.4 The Board welcomed the ability to record training undertaken through the learning management system as a way of demonstrating that Members were complying with their knowledge and skills requirements. Members acknowledged the need to complete their knowledge and skills self-assessment forms and requested that training slides be made available online. Christopher Smith (Scheme Member Representative on the Pension Board) also agreed to provide information of the training provided to those Pension Boards that were to receive six weeks of training.

10.5 **RESOLVED:**

1. That the contents of the paper be noted.
2. That the catch up training for those missing the original training be noted, and;
3. That the methodology, requirement and timeframe for the recording of training completed be noted.

11 PENSION FUND BENCHMARKING

11.1 The Board had before them a report on Pension Fund Benchmarking. The Chairman advised that the Council's response to the Local Government Pension Scheme (LGPS) Scheme Advisory Board's benchmarking exercise and comparisons with other local authorities would be discussed at the next Board meeting. A Member commented that the State Street Global Services UK Local Authority Annual Review for 2013/2014 had indicated that Fund performances had not been particularly strong. He expressed an interest in having more information on the Council's Investment Strategy and how it compared with other local authorities. Another Member enquired what steps could be taken in terms of benchmarking costs for fund managers and how could the real costs be identified. He also suggested that a comparison with those local authorities who internally appointed fund managers could be undertaken, as some such authorities were performing better than those who appointed externally.

11.2 In reply to the issues raised, Neil Sellstrom advised that the Council's Fund was not in the LGPS universe when the Local Authority 2013/2014 review had been undertaken, however he advised that since joining the universe, more specific data was being received. He informed Members that the Pension Fund Committee received quarterly updates produced by Deloitte on the Fund's performance. The Board heard that the London Collection Investment Vehicle produced a summary of the Investment Strategy. Neil Sellstrom advised that transactional costs, including fund manager costs, were identified in reports, fund managers pay was performance related and they received more if they exceeded targets. He stated that some very large authorities, such as Greater Manchester, had appointed internal fund managers and because of their size, it was difficult to make direct comparisons with the

performance of other local authorities. In addition, the appointment of some internal managers was based on historical arrangements. Neil Sellstrom advised that the cost of administering the Pension Scheme was around £7 million. The Board noted that the Council would be passing its comments to the Scheme Advisory Board with regard to the proposed Key Performance Indicators.

- 11.3 Nikki Parsons advised that Deloitte took fund managers fees into account in their reports and that league tables of performance for local authorities were also produced on a quarterly basis, although there was often a time lag with the data available, so the results were not necessarily up to date.

12 PUBLIC SERVICE GOVERNANCE AND ADMINISTRATION SURVEY

- 12.1 The Board sought confirmation that the Council's response to the survey would be available for consideration at the next meeting. Trevor Webster confirmed that the Council's response would have been made by then and the Board agreed that this item be considered at the next meeting.

13 FUTURE WORK PLAN

- 13.1 The Board noted that benchmarking was taking place in a number of areas. A Member requested whether a milestone progress chart of the Fund could be provided. It was suggested that the role of the external auditor could be added to the Work Plan.

- 13.2 In reply, Neil Sellstrom advised that the triennial evaluation looked at the progress of the Fund every three years, with the last one taking place in 2013 and the next one due in 2016. The triennial evaluation was undertaken by Barnett Waddingham, the Fund's actuary. Neil Sellstrom added that actuary training for Members would be taking place in the first quarter of the 2016/2017 municipal year. He agreed that adding the role of the external auditor to the Work Plan would be useful, as well as that of the internal auditors.

- 13.3 Nikki Parsons added that the auditors also helped provide assurance. She advised that the Funding Strategy Statement was based on the outcome of the triennial evaluation.

- 13.4 The Board agreed that the 2013 triennial evaluation, including an explanation of the figures stated in it, be provided at the next meeting in order to inform Members of the wider picture.

14 DATE OF NEXT MEETING

- 14.1 The Board agreed that the next meeting take place on Monday, 18 January 2016.

15 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

- 15.1 There was no additional business for the Board to consider.

The Meeting ended at 8.30 pm.

CHAIRMAN: _____

DATE _____

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City of Westminster

Pension Board

Date:	18 January 2016
Classification:	General Release
Title:	Risk Register Review
Report of:	Steven Mair <i>City Treasurer</i>
Wards Involved:	All
Policy Context:	Effective Control over Council Activities
Financial Summary:	There are no financial implications arising from this report

1. Executive Summary

- 1.1 This report gives an overview of the risk management arrangements for the Westminster Pension Fund.
- 1.2 This report focuses on the financial operational risks to the Pension Fund, resulting from a failure of the Council's financial system and outlines the mitigating actions which are in place.

2. Key Matters for the Board

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

3. Background

- 3.1 It is best practice for Pension Funds to maintain a risk register to ensure that the risks they face are properly understood and where appropriate action is needed to mitigate them.

- 3.2 Risk management is an issue for all those involved in the management of an LGPS fund, including members of the Pension Fund Committee, officers managing the Fund and the fund administrator. The Pension Board's role is to assist the administering authority in such activities to ensure effective and efficient governance and administration of the Scheme, as outlined in its Terms of Reference.
- 3.3 Attached at Appendix 1 is the updated Pension Fund Risk Register, which was reported to the Pension Fund Committee (the 'Committee') in November 2015. This supersedes the version which was previously presented to the Pension Board.
- 3.4 The first part of the register covers strategic risks to the Fund which in general have to be accepted and cannot be mitigated against, as they are inherent when running a Pension Fund. The Committee need to be aware of these risks particularly when making strategic decisions. The second part details operational risks which are mitigated through procedures and processes.
- 3.5 Officers review the risk ratings quarterly in advance of each Committee meeting and alter the ratings when appropriate. Any changes to ratings will be highlighted at the front of the Risk Register.
- 3.6 The Pension Board members agreed at the meeting in October that focus would be given to a different section of the Risk Register in future meetings.

4. Focus Area: Operational: Administration – Failure of Financial System

- 4.1 The "*failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and fund accounting not being possible*" is the first risk area which Board members have decided to focus on. This is referenced as Risk 19 in Appendix 1.
- 4.2 This risk has a high risk classification due to the Council having a new financial system.
- 4.3 In April 2015 a new financial system, Agresso, was introduced across the Tri-Borough as part of the Managed Services Programme (MSP) and much of the transactional processing has been outsourced to BT. Two operational areas of the Pension Fund which are affected by these arrangements are the payment of lump sums to scheme members and the payment to suppliers for services provided.
- 4.4 Since the launch, some problems were identified in the smooth processing of payments on the system, therefore additional actions and controls were put in place.

- 4.5 With regard to the payment of supplier invoices via Agresso, officers undertake thorough monitoring and additional testing, to ensure that the complete process has completed correctly. These measures seek to ensure that settlement has been made to the supplier and that the transactional entries have been accounted for accordingly.
- 4.6 As a contingency, there is a facility to make manual payments if there is a systems failure. This process requires the Pension Fund Officer to input the payment on the system which must then be approved by the appropriate officer as authorised in the scheme of delegation.
- 4.7 Lump sum payments are made to scheme members by Surrey County Council, who is the Fund's appointed pension administrator. There is no direct interface between the pension administration system and Agresso. The administrators do not have full access to Agresso and are unable to make payments via the system, but this issue is currently being addressed by the MSP Team. As an alternative arrangement, payments are instead made directly through the banking BACS system as a two stage inputter/approval process. Audit records are maintained and sent to the Pension Fund Officer on a timely basis for reconciliation and review.
- 4.8 Officers have undertaken additional measures to resolve the transitional issues, including site visits to both BT and Surrey County Council, producing test scripts, procedure notes and detailed reconciliations.

5. Next Meeting

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

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

Nikki Parsons

Pension Fund Officer

Email: nparsons@westminster.gov.uk

Telephone: 020 7641 6925

BACKGROUND PAPERS: None

Pension Fund Risk Register, November 2015

Appendix 1: Pension Fund Risk Register, November 2015

Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale
New	9	STRATEGIC: REGULATION Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs	A new European Directive comes into force in January 2017. Councils will need to demonstrate their 'professional status' in order to access investment products currently available to them.
Update mitigating actions and Increase Impact Score	19	OPERATIONAL: ADMINISTRATION Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	Distinction has been made between the two different payment types and the mitigating actions which is in place by the relevant third parties. Increased impact score reflects reduced timescales before the year end for finalising the Pension Fund Accounts and attaining an unqualified audit opinion. Mitigating actions are in place by officers to resolve the transitional issues including site visits to BT offices and test scripts.
Correction to Impact Score	21	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	The impact score previously reported was incorrectly typed as 2 instead of 3. The overall risk rating has not changed but now reflects the correct total.

Pension Fund risk register, September 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	STRATEGIC: INVESTMENT That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> Investment strategy in place and reviewed periodically. Performance is measured against a liability based benchmark. Fund performance is reviewed quarterly. 	2	3	Low 6 	City Treasurer	Nov 2015
2	STRATEGIC: INVESTMENT Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> Independent monitoring of fund manager performance by custodian against targets. Investment adviser retained to keep watching brief. Fund manager performance is reviewed quarterly. 	3	3	Low 9 	City Treasurer	Nov 2015
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	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	STRATEGIC: FUNDING The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. 	4	3	Medium 12 	City Treasurer	Nov 2015
5	STRATEGIC: FUNDING There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	<ul style="list-style-type: none"> Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review. 	2	1	Very Low 2 	City Treasurer	Nov 2015
6	STRATEGIC: FUNDING Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. 	4	2	Low 8 	City Treasurer	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
7	STRATEGIC: FUNDING Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly. 	2	3	Low 6 	City Treasurer	Nov 2015
8	STRATEGIC: REGULATION Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood. 	3	4	Medium 12 	City Treasurer and Acting Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
9	STRATEGIC: REGULATION Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	<ul style="list-style-type: none"> Officers are engaging with Fund Managers to understand the position better Knowledge and Skills Policy in place for Officers and Members of the Committee Maintain links with central government and national bodies to keep abreast of national issues. 	4	3	Medium 12 	City Treasurer	Nov 2015
10	OPERATIONAL: GOVERNANCE Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters. 	2	2	Very Low 4 	City Treasurer	Nov 2015
11	OPERATIONAL: GOVERNANCE Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> External professional advice is sought where required Knowledge and skills policy in place (subject to Committee Approval) 	3	3	Low 9 	City Treasurer	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
12	OPERATIONAL: GOVERNANCE Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	<ul style="list-style-type: none"> Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions team provides resilience and sharing of knowledge. 	3	3	Low 9 	City Treasurer and Acting Director of HR	Nov 2015
13	OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	<ul style="list-style-type: none"> At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided. 	2	2	Very Low 4 	City Treasurer	Nov 2015
14	OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds. 	3	2	Low 6 	City Treasurer and Acting Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
15	OPERATIONAL: FUNDING Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	<ul style="list-style-type: none"> Review “budgets” at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early. 	3	2	Low 6 	City Treasurer and Acting Director of HR	Nov 2015
16	OPERATIONAL: FUNDING Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 	2	3	Low 6 	City Treasurer and Acting Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
17	OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	<ul style="list-style-type: none"> • Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams. 	4	2	Low 8 	City Treasurer and Acting Director of HR	Nov 2015
18	OPERATIONAL: ADMINISTRATION Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	<ul style="list-style-type: none"> • Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 	3	1	Very Low 3 	City Treasurer and Acting Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
19	OPERATIONAL: ADMINISTRATION Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	<ul style="list-style-type: none"> Contract in place with BT to provide service enabling smooth processing of supplier payments Process in place for Surrey CC to generate lump sum payments to members as they are due. Officers undertaking additional testing and reconciliation work to verify accounting transactions 	4	4	High 16 	City Treasurer	Nov 2015
20	OPERATIONAL: ADMINISTRATION Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. 	1	5	Very Low 5 	Acting Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
21	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months. 	2	3	Low 6 	Acting Director of HR	Nov 2015
22	OPERATIONAL: ADMINISTRATION Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily. 	1	5	Very Low 5 	Acting Director of HR	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
23	OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	<ul style="list-style-type: none"> Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tuped to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed. 	2	3	Low 6 	Acting Director of HR	Nov 2015

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City of Westminster

Pension Board

Date:	18 January 2016
Classification:	General Release
Title:	Audit Arrangements
Report of:	Steven Mair <i>City Treasurer</i>
Wards Involved:	All
Policy Context:	Effective Control over Council Activities
Financial Summary:	There are no financial implications arising from this report

1. Executive Summary

- 1.1 This report explains the audit arrangements around the City of Westminster Pension Fund.

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper.

3. Background

- 3.1 The Terms of Reference for the Board state that a key element of their role is to ensure effective and efficient governance and administration of the scheme. A key source of assurance for the Pension Fund is the work of internal and external audit. Where third party organisations are involved, the Fund also receives Internal Controls Assurance reports which are produced by their external auditors and are relied upon by our Auditors.

4. Internal Audit

- 4.1 The work of Internal Audit is determined on a risk based assessment of the organisation's activities and is agreed with the Audit Committee on an annual basis.

- 4.2 Internal Audit reviews the processes and governance arrangements in place to ensure risk is effectively managed and controls are in place to mitigate significant risks.
- 4.3 A review of the Internal Audit reports covering pension issues has been undertaken and the recommendations and actions are summarised in Appendix 1. The most recent report looked at the Tri-Borough Pensions Team and the arrangements were found to be satisfactory.
- 4.4 The Pension Administration contract has been transferred to Surrey County Council for all the tri-borough Funds over the past year which has led to a large amount of work to ensure data is transferred accurately. Given this is a significant area of risk, this contract will be reviewed as part of the 2016/17 Audit Plan.

5. External Audit

- 5.1 The role of External Audit is different to Internal Audit for a number of reasons. External Audit has a specific role to give an opinion on the financial accounts of the organisation which provides credibility to those looking at the organisation from the outside.
- 5.2 The focus is on determining whether the accounts present 'a true and fair view' and is carried out annually. In forming this view the External Auditor will often take the work of the Internal Auditor into consideration particularly around internal controls.
- 5.3 The 2014/15 Pension Fund Accounts were approved by the External Auditors (KPMG) with no areas of concern. This is part of the wider review of the Council's financial statements and whilst it is a separate audit exercise there is no individual pension fund audit report.

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

Review of Pension Fund Internal Audit Reports

Over the last year and a half there were three separate internal audit investigations carried out plus a follow up review on one of the reports. It should be noted that there were no significant risks identified and all of the actions have been implemented or are in progress.

There were two separate audits of the Pensions Administration functions at the Royal Borough of Kensington and Chelsea (RBKC) and the London Borough of Hammersmith & Fulham (LBHF). The audit reports reflected the period covered by the Capita contract which has subsequently been terminated and transferred to Surrey County Council (who also administers for the Westminster Pension Fund).

There was also an internal audit and follow up review of the Tri-Borough pension investments service, the key recommendations and resulting actions of which are summarised in the table below.

Pensions Investment Team – October 2014

Medium Priority Recommendations	Agreed Actions
<p>The Tri-borough Director of Pensions and Treasury should ensure that actions continue to further develop the Tri-borough Pensions Risk Register so that it is in-line with the Tri-borough Risk Management guidance. Where necessary further support should be sought from the Bi-borough Risk Manager.</p> <p>Once the actions are complete the Risk Register should be presented to the Committee with responsibility for Pension Investments for each Council for their review. The Committees should be presented with the relevant risk register on at least an annual basis, or where there has been a significant change.</p>	<p>Papers will be going to the relevant Committees in the next cycle or the one after. Subject to discussion with the Tri-Borough risk team.</p>
<p>The Tri-borough Director of Pensions and Treasury should ensure that the appropriate contractual agreements are in place, and signed by both parties, for the exceptions identified.</p>	<p>Such arrangements are now in place.</p>

<p>The Tri-borough Director of Pensions and Treasury should ensure that as part of his review of the terms of reference for the WCC Superannuation Committee and the RBKC Investment Committee the quorum arrangements should be explicitly recorded.</p> <p>Actions already being taken to address the performance of the Capita Contracts for both RBKC and LBHF should continue with evidence maintained to demonstrate this. Once the new pension administration service for WCC has been properly embedded a review of the provider's performance should take place. LBHF and RBKC are currently considering their options for pension service provision over the long term and it is expected that a decision will be made on this shortly.</p>	<p>The quorums for each committee are already detailed in the Standing Orders.</p>
<p>In order to ensure that there is sufficient oversight in place, the reconciliations undertaken by the LBHF Pension Fund Officer should be reviewed by another officer with evidence maintained to support this.</p>	<p>Accepted.</p>

Conclusion

From this review of the control framework, **satisfactory assurance** can be given that robust arrangements are in place for the management of each Council's pension fund. One significant (medium) recommendation has been made in the following area to address the control weakness identified:

- Actions need to continue to address the performance issues identified with the pension fund scheme administrators for RBKC and LBHF.

Whilst it is appreciated that this issue relates to the bi-borough pension administration arrangement, and is not strictly an investment issue, the matter was brought to the attention of the auditor whilst reviewing the information provided to the Committees on the administration costs associated with each fund, and has therefore been included in this report. This should not detract from the fact the arrangements in place for pension investments in all 3 boroughs were being robustly managed.

Pensions Investment Team Follow Up Report – June 2015

Medium Priority Recommendations	Agreed Actions
<p>The Tri-borough Director of Pensions and Treasury should ensure that actions continue to further develop the Tri-borough Pensions Risk Register so that it is in-line with the Tri-borough Risk Management guidance. Where necessary further support should be sought from the Bi-borough Risk Manager.</p> <p>Once the actions are complete the Risk Register should be presented to the Committee with responsibility for Pension Investments for each Council for their review. The Committees should be presented with the relevant risk register on at least an annual basis, or where there has been a significant change.</p>	<p>In Progress</p> <p>The Tri-borough Director of Treasury and Pensions stated that the Shared Services Pension Fund Risk Register had been agreed and presented to the Committee with responsibility for Pension Investments for each Council and that the risk register is to now be presented to these Committees on a regular basis.</p> <p>The format of the Pension Fund Risk Register for WCC differed to that of the risk register for RBKC and LBHF. The risks identified themselves were consistent amongst all three Councils, with RBKC and LBHF having one additional risk recorded in relation to the switch from Capita to Surrey County Council (as pension scheme administrator) resulting in a disruption to the service or a loss of data leading to poor performance and complaints.</p>

Conclusion

The follow up report identified that the 4 of the 5 initial recommendations had been fully addressed and the final point was in progress.

Internal Audit Plan 2016/17

The pension administration arrangements with Surrey County Council will be reviewed as part of the 2016/17 Audit Plan which will be agreed with each Tri-Borough Authority.

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Pension Board forward plan 2016-17

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

9 th February 2016	<ul style="list-style-type: none"> Actuarial Valuation Process and Training – to be provided by Barnett Waddingham at their offices
<i>16th March 2016 Pension Fund Committee</i>	<ul style="list-style-type: none"> <i>Quarterly Update pack for 31st December 2015</i> <i>Briefing on triennial actuarial valuation</i> <i>Response to the Asset Pooling Consultation</i>
Early May 2016	<ul style="list-style-type: none"> Pension Fund Committee Papers 16th March 2016 Quarterly Performance Indicators Update pack for 31st March 2016 Risk Register Review – focus to be determined Annual Report on Pension Board Activities Knowledge and Skills Policy Review and Training Needs Annual Review
<i>21st June 2016 Pension Fund Committee</i>	<ul style="list-style-type: none"> <i>Quarterly Update pack for 31st March 2016</i> <i>Pension Fund Annual report and accounts</i> <i>Annual report on Pension Board activities</i> <i>Knowledge and Skills policy review</i> <i>Annual review of Admitted Bodies</i>
Mid July / Early September 2016	<ul style="list-style-type: none"> Pension Fund Committee Papers 21st June 2016 Quarterly Performance Indicators Update pack for 30th June 2016 Risk Register Review – focus to be determined Promotion of Scheme Membership Regulatory Compliance Review
<i>20th September 2016</i>	<ul style="list-style-type: none"> <i>Quarterly Update pack for 30th June 2016</i> <i>Appoint Investment Adviser</i>

Late October 2016	<ul style="list-style-type: none"> • Pension Fund Committee Papers 20th September 2016 • Quarterly Performance Indicators Update pack for 30th September 2016 • Risk Register Review – focus to be determined • Interim review of training received to date • Contracts Register Monitoring
<i>15th November 2016 Pension Fund Committee</i>	<ul style="list-style-type: none"> • <i>Quarterly Update pack for 30th September 2016</i> • <i>Results of triennial actuarial valuation</i> • <i>Funding Strategy Statement review</i>
Mid January 2017	<ul style="list-style-type: none"> • Pension Fund Committee Papers 15th November 2016 • Quarterly Performance Indicators Update pack for 31st December 2016 • Risk Register Review – focus to be determined • Results of Triennial Actuarial Valuation • Funding Strategy Statement Review
<i>21st March 2017 Pension Fund Committee</i>	<ul style="list-style-type: none"> • <i>Quarterly Update pack for 31st December 2016</i>
Early May 2017	<ul style="list-style-type: none"> • Pension Fund Committee Papers 21st March 2017 • Quarterly Performance Indicators Update pack for 31st March 2017 • Risk Register Review – focus to be determined • Annual Report on Pension Board Activities • Knowledge and Skills Policy Review and Training Needs Annual Review