



CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Tuesday 21st June, 2016**, Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP.

Members Present: Councillors Suhail Rahuja (Chairman), Antonia Cox, Patricia McAllister and Ian Rowley.

Officers Present: George Bruce (Tri-Borough Director of Treasury and Pensions), Sarah Hay (Pensions and Payroll Officer), Steven Mair (City Treasurer), Carmel Millar (Director of People Services), Nikki Parsons (Pension Fund Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson (Deloitte) and Dr Norman Perry (Pension Board Representative)

1 MEMBERSHIP

1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

2.1 Councillor Suhail Rahuja declared that he was employed by fund managers who have amongst their clients Hermes. However, he was not involved in any element of the work which relates to the Westminster Pension Fund and accordingly he did not regard this as a prejudicial interest.

3 MINUTES

3.1 RESOLVED:

That the Minutes of the meeting held on 22nd March 2016 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION BOARD

4.1 The Committee noted that the Minutes of the last Pension Board meeting held on 10th May 2016 would be circulated separately.

5 ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

- 5.1 George Bruce (Tri-Borough Director of Treasury and Pensions) presented the report and advised that the Government was largely satisfied with the London Collective Investment Vehicle's (CIV) response to its pooling criteria, however further information on infrastructure investments and fees savings were requested for the London CIV's detailed response required by 15th July. He confirmed that the proposed transfer of the Westminster Pension Fund's Baillie Gifford assets to the London CIV had been completed on 18th April 2016, following the agreement of the City Treasurer in consultation with the Chairman of the Committee. George Bruce envisaged that most of the transferring of assets from the Fund to the London CIV would take place during 2016 to 2020. He then drew Members' attention to Westminster City Council's specific response to the Government's criteria for pooling of assets and sought the Committee's approval.
- 5.2 During Members' discussions, clarification was sought as to whether all assets, including examples such as real estate, would need to be included under the London CIV, and if so, within what timelines. A further explanation was sought in respect of the Fund's costs submitted in response to the CEM benchmarking exercise and how these compared nationally. A Member commented on the need for caution in investing in infrastructure, particularly in respect of green sites. The Committee queried why the transfer of the Fund's passive equity investments with Legal and General Investment Management (LGIM) to the London CIV had been delayed from June 2016 to a likely date in September 2016. Councillor Ian Rowley advised Members that there was a useful article entitled "Survival of the unfittest: why the worst infrastructure gets built" in the Oxford Review of Economic Policy on the risks associated in investing in infrastructure and he would circulate this to the Committee and officers.
- 5.3 In reply to the issues raised by Members, George Bruce anticipated that all assets were likely to be transferred from the Fund to the London CIV at some stage and it was expected that the CIV would consist of around 40-45 mandates from a range of assets. He advised that four real estate mandates were expected to be included within the London CIV structure. George Bruce stated that it was expected that most of the Fund's assets would be transferred to the London CIV by 2020, however there was no legal requirement that this be undertaken and by this time. The Government had issued criteria by which assets did not need to be pooled, and such examples may include situations where it could be demonstrated that pooling such assets would bring more costs, and real estate assets where a strategic case could be made for them to be held within the Fund. However, the revised Local Government Pension Scheme (LGPS) Management and Investment of Fund Regulations gave the Government powers to intervene and require that assets be pooled if it thought this was the appropriate action to take. George Bruce anticipated that local authorities would undertake the majority of transferring to their respective pooled vehicles between now and 2020 and most assets would be pooled by 2022. It was not clear how the Government would respond to a Fund failing to pool assets until such a situation arose.

George Bruce advised that there was no current allocation of assets in infrastructure for the Fund, however a target allocation of 5% for this class had been set in the Fund's Statement of Investment Principles.

- 5.4 In respect of the CEM benchmarking exercise, George Bruce advised that broadly Funds were structured in a similar way, however the Government was still seeking further standardisation. The Westminster Pension Fund's costs were slightly below the national average in 2013, however they were marginally above in 2015 and this could mainly be attributed to performance fees for Majedie equity fund managers who had achieved higher returns for the Fund. In response to a further query from Members, George Bruce stated the figures that would be made publically available would be the CIVs estimated costs savings from pooling. He acknowledged the risks highlighted by Members in investing in infrastructure and the Government had accepted local authorities' rights to determine the level of investing in infrastructure assets, however it would continue to encourage such investments. George Bruce advised that the transfer of LGIM assets to the London CIV had been delayed whilst stamp duty and other tax implications were being addressed.
- 5.5 The Chairman concluded discussions on this item by emphasising that investing in infrastructure assets would only take place where it was seen to be beneficial to the Fund and was in line with its Statement of Investment Principles and he reiterated the Committee's concerns in investing in greenfield sites and the need to exercise caution in this area.

5.6 **RESOLVED:**

That the Westminster specific response as set out in Appendix 2 of the report be agreed for submission to the Government in July 2016.

6 DRAFT PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2015-16

- 6.1 Nikki Parsons (Pension Fund Officer) presented the report and advised that the draft Annual Statement of Accounts for 2015-16, including the Pension Fund accounts, had been submitted for external audit on 9th April, 12 weeks ahead of the statutory requirement of 30th June. However, new arrangements introduced by the Government allowing a 30 working day inspection period before a local authority may approve and publish its accounts meant that the accounts were to be presented to the Audit and Performance Committee for approval on 14th July, the earliest permitted date. Nikki Parsons referred to the topics covered by the Pension Fund Annual Report 2015-2016 and she sought agreement of Members to delegate approval of the final report to the Tri-Borough Director of Treasury and Pensions in consultation with the Chairman.
- 6.2 During discussions, a Member commented that the Audit and Performance Committee had raised questions in respect of Pension Fund payments being incorrectly charged and she sought further details on this. The Chairman welcomed the promptness in which the accounts had been submitted for external approval and the clearer way in which the accounts had been

reported. He sought an explanation of what ISAE in respect of type of assurances meant, what were the transactional costs that were referred to in the analysis of operational expenses and why had schools seemingly been classified as administrating authorities in the report. The Chairman also requested that the figure at the bottom of Note 6 in the report, contributions receivable, be made clear that it is the total contributions received.

- 6.3 In reply to the issues raised, Steven Mair (City Treasurer) advised that some pension payments had been incorrectly coded in 2015-16, however these had since been identified and corrected following a thorough check. The external auditors had been complimentary of the Pension Fund Statement of Accounts and had only raised four minor issues in respect of presentational matters.
- 6.4 Nikki Parsons advised that there were some errors in the annual report and these will be duly corrected, whilst the Design Team version of the report would also need to be checked.
- 6.5 George Bruce advised that ISAE referred to the various slightly different assurance standards that applied in recording and testing internal controls depending on the accountancy body that had issued the standard. In respect of transactional costs referred to in analysis of operational expenses, these could include commissions, stamp duties and registration fees. George Bruce confirmed that the schools listed in the report were scheduled bodies under the Council.
- 6.6 The Chairman requested that an explanation of the type of assurances and transactional costs be included in the report, as well as highlighting that schools were members of the Pension Scheme as scheduled bodies.

6.7 **RESOLVED:**

That the draft Pension Fund Annual Report be noted and that approval of the final report be delegated to the Tri-Borough Director of Treasury and Pensions, in consultation with the Chairman.

7 PENSIONS ADMINISTRATION UPDATE

- 7.1 Carmel Millar (Director of People Services) presented the first report on Pension Auto Re-Enrolment and advised that BT was due to send out letters advising those who will be opted into the scheme and those who are not eligible in the next few days. In reply to a query from Members, Sarah Hay (Pensions and Payroll Officer) anticipated that around 200 people would receive letters advising them of this, however once the exact figure from BT was provided, this would be communicated to the Committee.
- 7.2 Carmel Millar then presented the second report on Surrey County Council Administration Performance and advised that performance had deteriorated between April 2015 and March 2016, primarily due to BT's lack of staff that were knowledgeable of LGPS requirements, as well as the lack of interface between BT's Agresso and the Altair software used for administering the pension scheme. Surrey County Council had also taken on pension

administration work with the Council's other tri-borough partners, which had placed an additional strain. The Council was working with BT and Surrey County Council to improve performance and it had communicated the necessity of this. Of particular concern was the performance in payment of pensions to scheme members who had recently retired and this matter had been raised at a recent meeting with Surrey County Council and BT. Carmel Millar added that Surrey County Council had also undergone an internal re-organisation and recruiting more staff to administer the pension scheme.

- 7.3 During discussions, Members sought clarification as to what notifications were not being provided. A Member asked whether the problems being experienced were primarily due to BT and could action be taken in respect of a sub-standard performance in terms of the service level agreement. The Committee expressed its concern about the performance issues, especially in relation to delayed pension payments to scheme members who had recently retired and the impact it may have on their lives.
- 7.4 In reply to the issues raised, Carmel Millar explained that there were instances of delays in some notifications about staff who had just retired and consequently there were delays to their initial pension payments. Sarah Hay added that in some instances pension payments had been as late as a month after they were due. She felt that BT and Surrey County Council were equally attributable to the problems being experienced.
- 7.5 Steven Mair advised that the contract with BT was extensive and there were a number of avenues open to the Council to take action in respect of the sub-standard performance experienced. The Council was presently in commercial negotiations with BT on this matter and staff had put considerable efforts in trying to resolve this. There had also been a number of Audit and Performance Committee meetings that had taken place solely to discuss this issue. George Bruce added that separate key performance indicators for Surrey County Council are included within the annual accounts.
- 7.6 The Chairman requested that he meet with Surrey County Council, along with any other Committee Members who wished to attend, in order to have the opportunity to impress upon Surrey County Council the implications of the problems being considered and the need to prioritise in resolving them. He requested that the meeting take place in July, prior to the next Committee meeting.

8 TRIENNIAL VALUATION UPDATE

- 8.1 Carmel Millar updated Members on the triennial valuation and confirmed that the data had been deemed fit for purpose to be submitted for valuation. In reply to queries from Members, Sarah Hay (Pensions and Payroll Adviser) advised that previous problems with the quality of data were attributable to the lack of interface from BT in recording joiners and leavers correctly which would affect liability calculations. However, she advised that these issues had since been largely resolved.

9 FUND FINANCIAL MANAGEMENT

- 9.1 George Bruce presented the report and began by referring to the Risk Register that gauged the likely impact of the identified risks to the Fund. Three of these risks had decreased in terms of impact from the previous quarter, these being: Failure of custodian or counterparty, whose impact score had decreased to reflect the introduction of the pooling of Baillie Gifford assets to the London CIV; Introduction of European Directive MiFID II that had decreased due to the delay in its introduction, and; Failure of financial system that had decreased due to the accuracy and timeliness of payment processing as identified in the Pension Fund Statement of Accounts 2015-16 and the subsequent audit undertaken by Grant Thornton. George Bruce advised that the Risk Register currently lacked an explanation as to how the likely impact of a particular risk was gauged and this would be included in the Risk Register that was to be reported to the next meeting of the Committee. It would also include an explanation as to what was meant by classifying a particular risk with the impact stated.
- 9.2 George Bruce confirmed that as of 31st March, the Fund had complied with the LGPS Management and Investment of Funds Regulations 2009. George Bruce also advised that cashflow analysis had indicated a requirement to release £18 million of assets during 2016-17 and it was proposed to meet this by releasing overweight equity mandates with Baillie Gifford and Longview.
- 9.3 Members commented on the importance of focusing on higher impact risks. It was asked whether an advance could be arranged where a scheme member had not received their pension payment in time. Views on how quickly the Fund was maturing as pension payments rose were also sought.
- 9.4 In reply, Sarah Hay advised that an advance payment could be arranged with Surrey County Council where scheme members were in difficulty as a result of not receiving their pension payment in time. She advised that an assessment of how the Fund was maturing would be included as part of the triennial valuation.
- 9.5 **RESOLVED:**
1. That the updated risk register for the Pension Fund be approved and that it be noted that a further review will be undertaken by officers on the scoring process.
 2. That the Fund's compliance with the limits specified in Schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009 be noted.
 3. That the cashflow position of the Fund be noted and that approval be given for cash requirements to be funded from the most overweight mandates.

10 QUARTERLY PERFORMANCE UPDATE

- 10.1 Kevin Humpherson (Deloitte) provided an update on quarterly performance and advised that the Fund had performed below the benchmark for quarter 4 of 2015-2016, mainly due to underperformance of the active equity manager, Baillie Gifford, and the property manager, Standard Life. However since then, performance had improved and all three active mandates had performed above the benchmark. Kevin Humpherson stated that there were no issues of concern to raise on any of the fund managers. He advised that over the last three years, performance remained positive and the performance of Majedie and Hermes had been key to this.
- 10.2 Kevin Humpherson informed Members that Longview had agreed terms of principles in respect of participation in the London CIV, whilst Majedie were also showing more enthusiasm in becoming involved.
- 10.3 The Committee welcomed developments in respect of Longview and Majedie and the prospect of them participating in the London CIV. The views of Majedie having their fees reduced or capped in participating in the CIV was asked.
- 10.4 In reply, Kevin Humpherson felt that Majedie now had a greater understanding of the values of local authorities and were making more efforts to meet the terms of the London CIV, including fees. He added that Majedie's earlier reluctance to be involved in the London CIV may have been due to concerns they had about their capacity. George Bruce added that it was important that the Westminster Fund had a representative on the London CIV Investment Advisory Committee in order to ensure its views were heard. He stated that he had been nominated to be the Tri-Borough representative to the London CIV's Advisory Committee.
- 10.6 The Chairman requested that an update on Majedie's intentions in respect of the London CIV be circulated to the Committee.
- 10.7 **RESOLVED:**

That the contents of the paper, the performance report from Deloitte and the current actuarial assumptions and valuation be noted.

11 PENSION FUND INVESTMENT ADVISER CONTRACT

- 11.1 George Bruce presented the report and advised that the adviser contract was due to expire on 31 October 2016. He drew Members' attention to the tender process proposal as set out in the report and invited the Committee to nominate representatives to the adviser presentations.
- 11.2 During discussions, a Member enquired whether Pension Board Members could be involved in the adviser presentations. Another Member sought a further explanation as to why the Royal Borough of Kensington and Chelsea (RBKC) had decided not to be involved in a joint procurement process.

11.3 In reply, George Bruce advised that the Pension Board could play a role in observing the procurement process and in scrutinising it, however it could not be involved in making a decision on the Investment Adviser Contract. In respect of RBKC, he advised that they used different consultants and were considering investment advisers who were not part of the National LGPS Framework, and so RBKC had decided not to participate in the procurement process.

11.4 It was agreed that all Members of the Committee be nominated as representatives to the adviser presentations, whilst Pension Board Members were also to be invited to attend in an observational capacity.

11.5 RESOLVED:

1. That the report be noted and the proposed tender process using the National LGPS Framework for Pension Fund Investment Advisers be approved; and
2. That all Members of the Pension Fund Committee be nominated as representatives to the Investment Adviser presentations and that Pension Board Members be invited to attend the presentations in an observational capacity.

12 PENSION FUND COMMITTEE FORWARD PLAN

12.1 Members noted the proposed Pension Fund Committee Forward Plan.

13 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

13.1 There was no additional business for the Committee to consider.

14 MINUTES

14.1 RESOLVED:

That the confidential Minutes of the meeting held on 22nd March 2016 be signed by the Chairman as a correct record of proceedings.

15 MINUTES OF PENSION BOARD

15.1 The Committee noted that the confidential Minutes of the last Pension Board meeting held on 10th May 2016 would be circulated separately.

The Meeting ended at 8.24 pm.

CHAIRMAN: _____

DATE _____