CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Tuesday 10th May, 2016**, Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP.

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

Also Present: George Bruce (Tri-Borough Director of Treasury and Pensions), Nikki Parsons (Pension Fund Officer), Joanne Meagher (Head of Operational People Services), Trevor Webster (Senior People Services Manager) and Toby Howes (Senior Committee and Governance Officer).

Apology for Absence: Councillor Adnan Mohammed.

1 MEMBERSHIP

1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 **RESOLVED:**

That the Minutes of the meeting held on 18th January 2016 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION FUND COMMITTEE

4.1 The Board noted that the Minutes of the last Pension Fund Committee meeting held on 22 March 2016 would be circulated separately.

5 PENSION FUND 2015-16 ANNUAL ACCOUNTS AND AUDIT UPDATE

5.1 Nikki Parsons (Pension Fund Officer) introduced the report and stated that the Accounts and Audit Regulations 2015 set out the requirements for local authorities to produce an annual statement of accounts, including their pension fund accounts. She advised that the Council had submitted its accounts for external audit on 9th April 2016, the earliest public sector accounts ever issued. This achievement meant that the Council had exceeded the performance of 94% of the FTSE 100 listed companies, whilst most local government bodies took around three months to complete their accounts. Nikki Parsons informed Members that the accounts were due to be reported to the Audit and Performance Committee on 12th May 2016. She added that the accounts which had previously been externally audited by KPMG, were being audited by Grant Thornton this year.

5.2 The Board then heard from Geoffrey Banister (Grant Thornton), who provided an update on progress on the external audit. He drew Members' attention to the Audit Plan which included standard audit risks, auditing of the new ledger and other risks. The audit plan had been substantially completed and following completion an interim audit statement would be produced, followed by a final statement. Geoffrey Banister circulated a draft statement of findings to the Board and he advised that no material errors had been identified to date, and so therefore no adjustments had been proposed. The findings were largely positive, with only a very minor class change and recommendations to strengthen some internal controls proposed in an otherwise sound statement of accounts. Geoffrey Banister added that the speed with which the accounts had been submitted was impressive, however due to Government regulations, the accounts could not be signed off until 15th July 2016. He thanked the Pensions and Treasury Service for their assistance in ensuring that the audit had gone smoothly.

5.3 George Bruce (Tri-Borough Director of Treasury and Pensions) added that the external audit had proved more rigorous than in previous years and all recommendations made by the auditor had been accepted. This included reviewing policy in respect of pension payments for those domiciled abroad and the Council was working closely with Western Union on this matter. In respect of the recommendation concerning journals, these had been undertaken as an interim measure and would not be required to be repeated.

5.4 During Members' discussions, it was queried whether the manual interventions required during reconciliation had fully met the audit requirements. In respect of internal controls, clarification was sought on management expenses and investment income not being recorded on the Agresso ledger. A Member requested an explanation as to how figures of £9.891m and £484K had been arrived at for overall materiality and triviality respectively and a description of what was involved in a 'walk through'.

5.5 Members welcomed the speed at which the accounts had been completed for audit and acknowledged the effort undertaken to achieve this, despite the issues around Agresso. However, it was queried whether there had been any additional costs incurred to help the early completion. Members sought further information in respect of typical fraud cases identified, including those involving ex-domiciles and what steps were taken where there had been overpayments to a scheme member who had since died.

5.6 In reply to issues raised by Members, Nikki Parsons confirmed that the manual reconciliations complied with audit requirements and there had been a clear balance by the end of the financial year. She confirmed that no additional costs had been incurred in completing the accounts so promptly. George Bruce advised that although management expenses and investment income had been recorded, they had been incorrectly classified and so they had been accordingly re-categorised. Members noted that there were specific processes in place in respect of suspected overpayments to scheme members who had since died and this involved initial contact with the family concerned and court action was available to the Council to recover any costs should this be necessary

5.7 Geoffrey Banister advised that a standard fee of £21,000 was set to undertake an external audit of the accounts and additional charges would only be incurred if the external auditor had to carry out additional work due to apparent discrepancies in the accounts. He advised that no such additional work was necessary in this case. Geoffrey Banister advised that some large scale frauds in respect of payment pensions are uncovered by organisations from time to time. In order to prevent future fraud, tests are designed to identify where there may be a reasonable expectation of fraud. However, where there is staff collusion, fraud would be more difficult to identify. Trevor Webster (Senior Human Resources Manager) added that the Agresso system provided different staff with different levels of authority which meant staff collusion would be much more difficult in the case of the Council.

6 RISK REGISTER REVIEW

6.1 Nikki Parsons presented the report which focused on the two risks the Board had requested more information on at the previous meeting. The first strategic risk, pensions legislation and regulation changes, was classified as a medium risk and because strategic risks were generally inherent, they could not always be mitigated against. However, it was important for the Pension Fund Committee and the Board to be aware of these risks, particularly when making strategic decisions. Nikki Parsons stated that the Department of Communities and Local Government was required to consult with scheme managers, which included the Council, on any proposed changes in legislation and this was also reported to the Pension Fund Committee. In addition, the Local Government Association, the Chartered Institute of Public Finance and Accountancy and the Pensions and Lifetime Savings Association provided briefings to officers on proposed changes. Nikki Parsons then referred to recent changes in legislation and regulation on draft investment regulations, pooling criteria, Local Government Pension Scheme (LGPS) Regulations 2013 and LGPS (Amendment) (Governance) Regulations 2015 as set out in the report.

6.2 Turning to the second strategic risk, Regulation – Introduction of European Directive MiFID II, Nikki Parsons advised that although this was also classed as a medium risk, it was likely to be downgraded to a lower, possibly green status risk as recent indications were that MiFID II would be delayed and not proceed in its current form. The risk had been categorised as medium as local authorities would default to retail client status from their current professional client status. Such a status change presented the risk that a manager could eject a fund from holding a product outside their scope and result in a fire sale of assets.

6.3 During discussions, Members asked whether there were any upcoming changes to pensions regulations and legislation that would particularly affect the Westminster LGPS. A Member asked what the likely response of the Westminster LGPS would be if all schools were to become academies and would scheme members' data be retained. An explanation of the difference between professional client status and retail client status was sought and whether MiFID II would affect financial services in the City.

6.4 In reply to the issued raised in Members' discussions, Trevor Webster advised that he did not think changes to pensions legislation and regulations would affect the Westminster LGPS in terms of the software used to manage the pension scheme, and the software would be accordingly updated where there were changes. The software was also effective in terms of preventing overpayments. In the event of all schools being turned into academies, Trevor Webster advised that staff would be subject to TUPE arrangements to ensure their pensions were retained and discussions needed to take place to ensure a suitably robust bond or guarantee was put in place.

6.5 George Bruce advised that the Council was a member of a number of professional organisations that provided advice and training in respect of the potential impact of legislative and regulation changes to pensions and there was also considerable dialogue between the London boroughs. Members heard that a professional client was defined by the European Union as a client possessing the experience, knowledge and expertise to make its own investment decisions and to properly assess the risks that it incurs. Under MiFID II, it had been proposed that local authorities no longer met this criteria and so by default would be re-classified as retail clients. However, MiFID II had been delayed whilst further clarification was sought, but there was still the potential for local authorities to be re-classified. George Bruce felt that if MiFID II was implemented, it would not affect the performance of financial services in the City, however financial institutions in the European Union would seek to have a more common understanding and to offer greater protection for pension scheme members.

6.6 Members then considered risks to focus on at the next meeting. The Board requested that Risk 4 – Strategic: Funding – Level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities, and Risk 6 – Strategic: Funding – Scheme members living longer than expected leading to higher than expected liabilities, be reported at the next meeting. The Board also requested a separate report on annual benefit statements and timelines.

7 KEY PERFORMANCE INDICATORS UPDATE

7.1 The Board considered a confidential report on key performance indicators in respect of the Section 101 Agreement with Surrey County Council to administer the pension scheme.

8 TRAINING UPDATE AND PROPOSALS

8.1 The Board considered a confidential report on training and proposals for Members.

9 PENSION FUND BENCHMARKING - COSTS

9.1 George Bruce presented the report that provided an update on performance benchmarking of the Fund in respect of the Scheme Advisory Board's (SAB) key performance indicator (KPI) benchmarking exercise and further information in respect of benchmarking investments and costs. The SAB's benchmarking exercise sought to identify examples of best practice and George Bruce referred to the scores for the Council as set out in the report, with positive scores identifying degrees of compliance and minus score non-compliance. He acknowledged that there were negative and zero scores in some areas that needed to be addressed and there was room for improvement. The intention was to gain as many positive scores as possible, although there were some areas that were beyond the Council's ability to influence.

9.2 In terms of investment performance, George Bruce advised that although the overall one year net return was slightly below the benchmark, it was 1.3% above the benchmark for the three year net return. The reason for these figures was because of the different strategies adopted by each fund scheme manager. The Fund's management costs were above the average, however it had fully complied with Chartered Institute of Public Finance and Accountancy guidance on accounting for costs. George Bruce added that other funds had not fully complied and this may account for them recording lower management costs. However, over time local authorities would be accounting for costs in a more consistent way, making direct comparisons easier.

9.3 Nikki Parsons added that there was considerable variation amongst local authorities in interpreting calculation of the SAB KPI benchmarking exercise and the Council had taken a more critical approach than many.

9.4 During discussion, Members commented that the lack of compliance amongst some funds in accounting for costs made comparisons more difficult. The need for more transparency from all funds was emphasised, particularly as the Council's management costs appeared to be comparatively high. Christopher Smith advised that he would be inviting the Transparency Group to Westminster and the Pensions Forum and he also welcomed Board and Pension Fund Committee Members to attend the Pensions Forum.

9.5 In reply to issues raised, George Bruce advised that local authorities were now submitting a large number of fees and costs through the London

Collective Investment Vehicle (CIV) and this would enhance the ability to make comparisons. In addition, the London CIV would also help drive costs and fees down.

9.6 The Board requested a report comparing management fees and costs with other funds at a future meeting. The Chairman added that this could also include funds that were not managed by local authorities.

10 LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

10.1 George Bruce presented the report and advised that the Government had issued pooling criteria requesting that each local authority develop plans to participate with other LGPS in collective asset pools that must be at least £25 billion in size. The Government had required the Council to submit initial plans for meeting the pooling criteria in February 2016 and more detailed plans by July 2016. George Bruce drew Members' attention to the London CIV's initial plans submitted on behalf of the Council and other participating local authorities. The Board noted that the London CIV had made significantly more progress than other pooled vehicles to date. George Bruce advised that the London CIV had already started to take on assets from London boroughs, with three investment mandates transferred and a transfer of £180 million of Westminster assets from Baillie Gifford Global Active equities to the CIV. The transfer was expected to make annual savings of £40,000 for the Fund. George Bruce advised that it was possible that almost all of the Fund's assets would be transferred to the London CIV in the next four years.

10.2 Members commented that the London CIV's response to the Government's pooling asset proposals had been encouraging. It was queried whether the role of Pension Boards would change as more assets were transferred to the London CIV in the longer term, whilst acknowledging that it would make comparing data with other funds easier.

10.3 In reply, George Bruce advised that the Board's role would not diminish as the London CIV developed as it was only acquiring assets and appointing and monitoring fund managers, whilst the remaining aspects of the Fund and the Pension Scheme, including administrative elements, would remain under the control of the Council.

11 FUTURE WORK PLAN

11.1 Members had before them a proposed work plan for the Pension Board for 2016-17. George Bruce advised that work on drafting the Pension Board Annual Report would commence shortly.

11.2 Members then discussed what reports they would like to come to the Board at future meetings. The Board requested a report on agreeing the structure of future pension management fees and costs reports and a report setting out the risks in relation to submitting data for the triennial evaluation. A report was also requested providing further details of the London CIV's governance arrangements for the second meeting of 2016/17.

12 DATE OF NEXT MEETINGS

12.1 Members considered dates for meetings of the Board for 2016-17. It was agreed that the first meeting take place on Tuesday, 23rd August 2016. For the remaining three meetings, it was agreed that Toby Howes (Senior Committee and Governance Officer) circulate some suggested dates for Members to agree on.

13 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

13.1 On behalf of Members, the Chairman in acknowledging that this would be Trevor Webster's last meeting before he left the Council, thanked him for the support he had provided to the Board and wished him well for the future.

14 MINUTES

14.1 That the confidential Minutes of the meeting held on 18th January 2016 be signed by the Chairman as a correct record of proceedings.

14.2 In reply to a query from a Member, George Bruce confirmed that future reports on the triennial valuation would appear on the public part of the agenda.

15 MINUTES OF PENSION FUND COMMITTEE

15.1 The Board noted that the confidential Minutes of the last Pension Fund Committee meeting held on 22nd March 2016 would be circulated separately.

The Meeting ended at 8.30 pm.

CHAIRMAN: ______________________ **DATE** ___________________