



City of Westminster

Committee Agenda

Title:

Pension Board

Meeting Date:

Monday 6th March, 2017

Time:

7.00 pm

Venue:

Room 15, 17th Floor, City Hall, 64 Victoria Street London SW1E 6QP

Members:

Councillors:

Angela Harvey
Adnan Mohammed

Employer Representative:

Marie Holmes

**Scheme Member
Representatives:**

Dr Norman Perry
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)

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|--|-------------------------------|
| <p>1. MEMBERSHIP/APPOINTMENT OF CHAIRMAN AND VICE CHAIRMAN</p> <p>To appoint a Chairman and Vice Chairman and to note any changes to the membership.</p> | |
| <p>2. DECLARATIONS OF INTEREST</p> <p>To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.</p> | |
| <p>3. MINUTES</p> <p>To approve the Minutes of the Pension Board meeting held on 29 November 2016.</p> | <p>(Pages 1 - 8)</p> |
| <p>4. MINUTES OF PENSION FUND COMMITTEE</p> <p>Minutes of the Pension Fund Committee meeting held on 15 November 2016 to follow.</p> | |
| <p>5. BRIEFING ON TRIENNIAL VALUATION RESULTS</p> <p>Report of the City Treasurer.</p> | <p>(Pages 9 - 20)</p> |
| <p>6. RISK REGISTER REVIEW</p> <p>Report of the City Treasurer.</p> | <p>(Pages 21 - 40)</p> |
| <p>7. PENSIONS ADMINISTRATION KEY PERFORMANCE INDICATORS UPDATE</p> <p>Report of the Director of People Services.</p> | <p>(Pages 41 - 44)</p> |
| <p>8. YEAR END PENSIONS ADMINISTRATION UPDATE</p> <p>Report of the Director of People Services.</p> | <p>(Pages 45 - 48)</p> |

9. FUTURE WORK PLAN AND ALLOCATION OF WORK AREAS | **(Pages 49 - 56)**
Report of the City Treasurer.

10. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

Charlie Parker
Chief Executive
28 February 2017

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Tuesday 29th November, 2016**, Room 12 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP.

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

Officers Present: Peter Carpenter (Assistant City Treasurer – Managed Services Programme), Nikki Parsons (Pension Fund Officer), Joanne Meagher (Head of Operational People Services), Sarah Hay (Pensions and Payroll Adviser) and Toby Howes (Senior Committee and Governance Officer).

Apologies for Absence: Councillor Adnan Mohammed (Employer Representative), Marie Holmes (Employer Representative) and Christopher Smith (Scheme Member Representative).

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 23rd August 2016 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION FUND COMMITTEE

4.1 The Chairman referred to paragraph 6.1 in the Minutes in relation to effective management of the Pension Fund Scheme and sought an update on progress with regard to issues relating to BT and Surrey County Council, and in

particular with payment of pensions, especially for those staff who had just retired.

- 4.2 In reply, Joanne Meagher (Head of Operational People Services) advised that performance had improved slightly over the last quarter, although there was still progress to be made. BT had put in place an improvement plan and had brought in additional resources. Joanne Meagher was hopeful that the changes would mean there would be significant improvement by the end of March 2017.
- 4.3 Sarah Hay (Pensions and Payroll Adviser) added that complaints relating to pension scheme administration had fallen, with two complaints relating to lifetime allowances having recently been received, although performance overall had improved. Surrey County Council's performance was also improving, with additional staff in place and appropriate training being undertaken. Sarah Hay stated that Gareth Wood (Head of Finance for the Shared Service Centre, BT) and Craig Anderson (Service Delivery Director, BT) had been invited to address the Pension Fund Committee at the last meeting on 15th November and both had stressed BT's commitment to improving performance.
- 4.4 Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions) advised that the Chief Executive was meeting BT on a monthly basis to discuss a range of issues, including pension scheme administration matters and one of the main issues was ensuring there was sufficient technical expertise to resolve matters. He added that the Pension Fund Committee had told BT that they would continue to be asked to attend future meetings until the issues were resolved.

4.5 **RESOLVED:**

That the Minutes of the last Pension Fund Committee held on 20th September 2016 be noted.

5 RISK REGISTER REVIEW

- 5.1 Nikki Parsons (Pension Fund Officer) presented the report and referred to the first risk on the Risk Register identified by the Board for further consideration: 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 and succession planning not being in place. She drew Members' attention to the controls set out in the report to mitigate this risk, which included using the person specifications to appoint officers with the relevant skills and experience. As part of the annual performance appraisal process, a personal development plan was also in place. Officers could also access guidance on pension matters from the Chartered Institute of Public Finance and Accountancy (CIPFA) and other professional organisations, such as the Pensions and Lifetime Savings Association and these organisations also offered training events and produced publications. Nikki Parsons advised that a framework for officers was also available underpinning the six core areas of pension finance. Members noted that pension finance officers

were part of the tri-borough Treasury and Pensions Team, meaning there are more skilled officers within the team to provide support and cover. Nikki Parsons advised that when the Tri-Borough Director of Treasury and Pensions left the Council in November, Peter Carpenter, who had previously managed treasury and pensions at the Council, was appointed to replace him on an interim basis. An additional officer in People Services had also been appointed in the Pension Support area.

- 5.2 Turning to the second risk: Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints, Nikki Parsons advised that this had a low risk classification and that the Pension Support Team had visited Surrey County Council, the pension administrators, to discuss issues and reassurances had been made, whilst there had also been improvement to the telephone system to deal with customer enquiries more effectively. In addition, the key performance indicators had been reviewed and updated and Surrey County Council would be reporting on a wider range of tasks to allow the Council to monitor their performance more closely.
- 5.3 Members asked whether having more than one officer who had Treasury and Pensions management experience was deliberate in case the post holder left the position at short notice. It was also queried whether there were officers available who could help provide advice in respect of guidance issued by CIPFA and other professional organisations.
- 5.4 In reply, Peter Carpenter advised that there was a range of senior finance officers who had treasury and pensions management experience who could cover the Tri-borough Director of Treasury and Pensions role. He stated that generally most officers who reached Assistant Director level would have covered most areas of finance, including treasury and pensions. Technical advice was also provided to officers by Peter Worth in Finance. In addition, the Pension Fund Committee's membership had remained largely unchanged for a number of years and the members were experienced on pension matters. Peter Carpenter stated that specialist advisers who attended the Pension Fund Committee could also be invited to attend Pension Board meetings.
- 5.5 Members noted that a new appointment had been made to support the Pensions and Payroll Adviser post. Sarah Hay added that Surrey County Council had trained up more staff with the appropriate technical skills to improve resilience in the event of staff going on long term sick leave.

6 PENSION BOARD FORWARD PLAN

- 6.1 Peter Carpenter presented the report and sought clarification on whether the Board wished to create a set of principles based on its Terms of Reference. He also sought Members' views on what matters they wanted the Board to focus on in future and who the Board would like to attend their meetings to provide Members with advice.

- 6.2 During discussion, it was noted that each Board Member was appointed on a three year basis and their appointment could be extended by a further three years, subject to re-nomination. Members suggested that a rota be set up to ensure at least one Board member was always in attendance at Pension Fund Committee meetings. In respect of proposals to invite Board Members to attend the next Pension Fund Committee on 21 March 2017, it was asked whether this meant all Board Members.
- 6.3 Members commented on the need to prevent duplication of work that the Pension Fund Committee was already undertaking, and it was suggested that the Board focus on pension administration matters, such as scrutinising the issues in respect of Surrey County Council and BT's administration of the pension scheme. The Chairman requested that a draft paper be produced for the Board for its next meeting on 27th February 2017 to suggest roles the Board can undertake and to form the basis of discussion when members Pension Board meet with the Pension Fund Committee on 21st March to discuss allocation of work areas. The Vice Chairman suggested that the Board could focus on the 2016 triennial valuation, the administration of the Fund and Pension Scheme and in terms of investment policy, consider whether the correct procedures were followed in appointing fund managers. In addition, the Board should receive reports that provide evidence of compliance with pension regulations. Members also sought further comments in respect of the Risk Register.
- 6.4 In reply to issues raised by Members, Nikki Parsons advised that it was proposed that the Risk Register to be presented to the next meeting of the Pension Fund Committee would include a break down on the impact score of each particular risk, whether this be in terms of the financial impact, or the number of people it affected. This would include reviewing the scoring mechanism. Nikki Parsons agreed to Members' request that they receive a paper on the revised scoring mechanism and the processes involved for the Board to consider and provide feedback at the next meeting. With regard to Board Members being invited to the next Pension Fund Committee meeting, Nikki Parsons advised that Committee Members had wanted to discuss allocating work appropriately between the Board and the Committee at this meeting and so had wanted to invite Board Members to it.
- 6.5 Peter Carpenter added that he would discuss with the Chairman of the Pension Fund Committee whether it was intended that all Board Members be invited to the next Committee meeting. He stated that the role of the Pension Fund Committee was to monitor the performance of the Fund and to ensure that assets were growing sufficiently to meet liabilities. He confirmed that a draft paper suggesting roles for the Board be produced for discussion at the next Board meeting.

7 SURREY PENSION ADMINISTRATION PERFORMANCE

- 7.1 Joanne Meagher (Head of Operational People Services) presented the report updating Members on the performance Surrey County Council, the pension scheme's administrators. She advised that there had been progress in respect of recently retired staff receiving their first pension payment in timely fashion,

however there was still room for further improvement and this had been impressed upon Surrey County Council. People Services officers had met with Surrey County Council to discuss concerns and it had been agreed that the key performance indicators (KPIs) be reported to the Council on a quarterly basis. Joanne Meagher advised that additional KPIs had been created to more accurately reflect the pension member experience of the service and she referred Members to the new set of KPIs as set out in appendix 3 of the report. This included more details on deferred scheme members where those members who have left the scheme without immediate payment of pension, the number of cases being processed in each area being monitored and additional information where any particular issue impacts on a KPI. Joanne Meagher confirmed that the new KPI format will take effect from December 2016.

- 7.2 Sarah Hay added that following a meeting with the auditors, sample testing had indicated that testing of calculations had identified that benefits were being paid correctly. However, a final report was awaited from the auditors in respect of reviewing Surrey County Council's performance in meeting the agreed timescales and it was hoped that an update on this could be provided at the next Board meeting.
- 7.3 During discussions, Members enquired what the KPI performance targets were and it noted that some KPIs were more critical than others. Members also enquired about the degree of oversight that Surrey County Council councillors, along with their respective Pension Fund Committee and Pension Board, had in terms of monitoring pension administration performance.
- 7.4 In reply, Sarah Hay advised that the targets for most KPIs were 100%, however some KPIs were more critical than others, for instance lump sums being paid within 5 working days was more critical than ensuring new starters had been added to the pension scheme within 30 days. It was also recognised that some KPIs were affected by BT's problems in respect of the lack of an interface for capturing all relevant data. The Council was working with Surrey County Council as part of the Section 101 Agreement in seeking improvements in performance and overcoming issues. Sarah Hay advised that there was Member level appraisal of pension administration performance at Surrey County Council and she would seek further information in respect of this. Surrey County Council Members were also receiving training to help them fulfil their role in overseeing performance. Sarah Hay added that the pension scheme was more complicated now than the other three boroughs, the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith and Fulham, also had their pension schemes administered by Surrey County Council.
- 7.5 Joanne Meagher added that Surrey County Council did not use BT for the administration of their own pension scheme, so it was a learning experience for them.

8 PENSION BOARD TRAINING UPDATE

- 8.1 Sarah Hay presented the report and confirmed that the next training session for Board members will take place on 12th January 2017. She advised that the training requirements were being met in terms of compliance and drew Members' attention to the information on upcoming training events being held by Barnett Waddingham in 2017.
- 8.2 Members concurred that they were satisfied with the training they had received to date and that there was plentiful information and training opportunities. Members had also enjoyed the training event held by Barnett Waddingham. It was commented that drawing up a division of responsibilities between the Pension Fund Committee and the Board would be helpful.
- 8.3 Nikki Parsons advised that a representative from Barnett Waddingham, the Fund's actuary, will be attending the next Board meeting.

8.4 RESOLVED:

That the training proposals be approved.

9 PROMOTION OF SCHEME MEMBERSHIP

- 9.1 Sarah Hay presented the report and advised that approximately 200 employees had been identified as needing to be re-enrolled into the Pension Scheme over the summer. BT had initially not completed this task after prompting by People Services, however as of October 2016 this issue had been rectified. Sarah Hay advised that report figures on how many staff had chosen to opt out again was not presently available, however this would be provided at the next meeting. People Services had also met with Surrey County Council where a demonstration of the Altair Self -Service System was shown, which allows both current and ex scheme members to view and check their pension records. Although the self-service system had been active for some time, further improvements had been made to it and a launch was planned at the beginning of the 2017-2018 financial year to promote its use to employees and pensioners. A new staff member had also been recruited whose role would include updating the pension page on the Council's intranet.
- 9.2 Peter Carpenter advised that at the last actuarial valuation in 2013, it had been considered that up to around 50% of scheme members would choose to opt out of the pension scheme. However, the numbers opting out had been much lower than this, with only around 0.3% opting out nationally. This had implications in respect of increasing payouts, particularly those who had been members of the pension scheme for a number of years.
- 9.3 Members emphasised the need for there to be a clear explanation of what opting out the pension scheme meant and the implications of it.

10 PENSION ADMINISTRATION STRATEGY AND DISCRETIONARY POLICIES

- 10.1 Joanne Meagher confirmed that a draft Pension Administration Strategy had been produced and advised that it would be due to be implemented in the next financial year. She advised that the strategy was unable to be implemented any earlier as the BT contract was performing below the specified level with regard their pension administration performance and all payments and records made since April 2015 needed to be up to date. Joanne Meagher emphasised the need to ensure the strategy met all scheme participating organisations' needs. Members noted that Discretionary Policies were available, however these were not to be published on the Council's pension sites until after they had been reviewed. An update on the Strategy and the Discretionary Policies would be provided at the next meeting.

11 LONDON COLLECTIVE INVESTMENT VEHICLE GOVERNANCE ARRANGEMENTS

- 11.1 Peter Carpenter presented the report and advised that the Westminster Pension Fund was fairly advanced in terms of transferring assets to the London Collective Investment Vehicle (CIV) compared to other funds. However, further consideration needed to be given with regard to governance arrangements. Presently, the Pension Fund Committee appointed, and had the ability to remove, fund managers. However in future, the London CIV would be responsible for this function and this posed questions as to the Council's ability to deal with fund managers and how quickly it could move funds around. Consideration also needed to be given as to how the CIV would call fund managers to account. Peter Carpenter advised that firmer governance arrangements needed to be in place as more funds were transferred to the CIV. Issues such as ethical investment needed to be considered and the CIV would be required to produce a statement on how they would undertake pooling. Peter Carpenter also sought a nomination for a Board representative to attend the Fund Manager Monitoring Day on 16th December.
- 11.2 During Members' discussions, it was asked whether increasing pooling of funds to the London CIV would diminish the role of the Pension Fund Committee and also how this would impact on the role of the Pension Board.
- 11.3 In reply, Peter Carpenter advised that the London CIV had already made suggestions on the future roles of Pension Fund Committee and Pension Boards. The CIV had set up a working group to consider governance issues and the Council would make every effort to make use of representation on such bodies to put across its views.
- 11.4 Nikki Parsons added that the Pension Fund Committees would still retain the ability to make decisions on funding strategies and asset allocations, whilst the CIV would be responsible for implementing these.
- 11.5 Board members were to liaise with Toby Howes (Senior Committee and Governance Officer) with regard to a Board member attending the Fund

Manager Monitoring Day on 16th December. Nikki Parsons advised that a paper on the Fund Manager Monitoring Meeting would be circulated to Members.

12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

12.1 There was no other business to consider.

13 MINUTES

13.1 RESOLVED:

That the confidential Minutes of the last Pension Board meeting held on 23rd August 2016 be signed by the Chairman as a correct record of proceedings.

The Meeting ended at 8.23 pm.

CHAIRMAN: _____

DATE _____



City of Westminster

Pension Board

Date:	6 March 2017
Classification:	General Release
Title:	Briefing on Triennial Valuation Results
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 The Fund Actuary, Graeme Muir of Barnett Waddingham, will be attending the meeting to brief the Board on the 2016 actuarial valuation.
- 1.2 The draft funding strategy statement reflecting the changes to the CIPFA guidance is presented for noting.

2 Recommendation

- 2.1 That the Board note the contents of this paper.

3 Actuarial Valuation

- 3.1. Members will be aware that the LGPS regulations require all LGPS funds to undertake an actuarial valuation every three years for the purpose of setting employer contribution rates and monitoring the solvency of the funds. All funds in England and Wales are required to carry out a valuation as at 31st March 2016.
- 3.2. The Fund Actuary, Graeme Muir of Barnett Waddingham, presented the initial results and assumptions to be applied at the November 2016 meeting of the Pension Fund Committee.

- 3.3. The admitted and scheduled bodies have been notified of their individual employer rates for the next 3 years. The rates are to be applied from 1st April 2017. The draft Funding Strategy Statement (appendix 1) was also circulated to employers for consultation. The deadline for any comments is 28th February 2017.
- 3.4. At the time of writing this report, the contribution rate for Westminster City Council is still to be finalised.
- 3.5. The Fund Actuary will be attending the Committee meeting on 21 March 2017 for the approval of the final valuation report and funding strategy Statement.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDIX:

Appendix 1 - Draft Funding Strategy Statement

CITY OF WESTMINSTER PENSION FUND DRAFT FUNDING STRATEGY STATEMENT 2016

1. Purpose of the Funding Strategy Statement

- 1.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:
- How the costs of the benefits provided under the Local Government Pension Scheme (the “Scheme”) are met through the Fund in a prudent way;
 - The objectives in setting employer contribution rates and the desirability of maintaining stability in the primary contribution rate; and
 - Ensuring that the regulatory requirements to set contributions that will maintain the solvency and long term cost-efficiency of the Fund are met.

2. Aims and Purpose of the Fund

- 2.1 The aims of the Fund are to:
- Manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
 - Enable primary contribution rates to be kept as nearly constant as possible; and
 - Seek returns on investment within reasonable risk parameters.
- 2.2 The purpose of the Fund is to:
- Pay pensions, lump sums and other benefits provided under the Regulations;
 - Meet the costs associated in administering the Fund; and
 - Receive contributions, transfer values and investment income.

3. Responsibilities of Key Parties

- 3.1 The key parties involved in the funding process and their responsibilities are as follows:

The Administering Authority

- 3.2 The Administering Authority for the Pension Fund is the Westminster City Council. The main responsibilities of the Administering Authority are to:
- Operate a pension fund;
 - Collect employee and employer contributions investment income and other amounts due to the Fund, as stipulated in the LGPS Regulations;
 - Invest the Fund’s assets in accordance with the LGPS regulations;
 - Pay the benefits due to Scheme members; as stipulated by the LGPS regulations;

- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this Funding Strategy Statement (FSS), the Statement of Investment Principles (SIP) and Investment Strategy Statement (ISS) after consultation with other interested parties; and
- Monitor all aspects of the Fund's performance and funding, amending the FSS and ISS accordingly;
- Manage any potential conflicts of interest arising from the Borough's dual role as scheme employer and fund administrator
- Enable the Pension Board to review the valuation process as set out in their terms of reference.

Individual Employers

3.3 In addition to the administering authority, a number of scheduled and admitted bodies participate in the Fund.

The responsibilities of each individual employer that participates in the Fund, including the administering authority, are to:

- Deduct contributions from employees' salaries correctly and pay these, together with their own employer contributions as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of all changes in Scheme membership and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, such as early retirement strain, in accordance with agreed policies and procedures.

Fund Actuary

3.4 The Fund Actuary for the City of Westminster Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.
- Provide advice and valuations on the exiting of employers in the Fund
- Advise the administering authority on bonds and other forms of security against the financial effect on the Fund of employer default.

- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations.
- Ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to the administrator's role in advising the fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

4. Solvency Issues and Target Funding Levels

- 4.1 Given the statutory position of the LGPS administering authorities and the tax-backed nature of employing authorities who make up the core of the scheme and the statutory basis of the scheme, the LGPS remains outside the solvency arrangements established for private sector occupational pension schemes.
- 4.2 LGPS regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises.
- 4.3 Maintaining as nearly a constant a primary employer contribution rate is a desirable outcome, but not a regulatory requirement. It is for LGPS administering authorities to seek to achieve a balance between the objectives in a prudent manner.
- 4.4 Solvency is defined as meaning that the rate of employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise. This does not mean that the Fund should be 100% funded at all times, but that the rate of employer contributions should be set to target a funding level for the whole fund of 100% over an appropriate time period and using an appropriate set of actuarial assumptions.
- 4.5 Employers should collectively have the financial capacity to increase employer contributions and/or the Fund should be able to realise contingent assets if future circumstances require, in order to continue to target a funding level of 100%. If these conditions are met, it is anticipated that the Fund will be able to pay scheme benefits as they fall due.
- 4.6 The rate of employer contributions shall be deemed to be set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to the rate for any surplus or deficit in the Fund. The Government Actuary's Department (GAD) will assess whether this condition is met.

5. Primary rate of the employers' contribution

- 5.1 The primary rate for each employer is that employer's future service contribution rate which is the contribution rate required to meet the cost of the

future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any specific employer circumstances.

- 5.2 The primary rate for the whole Fund is the weighted average, by payroll, of the individual employers' primary rates.
- 5.3 The secondary rate of the employer's contribution is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed either as a percentage adjustment to the primary rate and/or as a cash adjustment for each of the three years of the inter-valuation period. This will be set out in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.
- 5.4 The actuary should disclose the secondary rates for the whole scheme in each of the three inter-valuation years. These should be calculated as a weighted average based on the whole scheme payroll. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

6 Solvency Issues and Non Local Authority Employers

- 6.1 The number and type of non local government bodies operating within the LGPS has grown considerably since 2004, when Funding Strategy Statements were first introduced. There are now many more private sector contractors, companies spun off from local authorities and academies which have employees who continue to qualify for membership by dint of transferred rights under the TUPE regulations. Employees in academies qualify for the scheme because of academies' scheduled body status. Key issues are:
 - The need to set appropriate employer contribution levels and deficit recovery periods for these employers which do not have tax-raising powers and therefore have weaker covenants than local authorities;
 - The underlying investment strategy of the assets backing the liabilities of these employers;
 - The financial standing of those employers (or their parent companies or guarantors) and their ability to meet the cost of current membership, fund any deficit and ability to ensure against default.
 - The long and short term effects of high contribution rates on non local authority employers in terms of their financial viability.
- 6.2 In the interests of transparency, the FSS should clearly set out the risk assessment methodology to assess the long term financial health of employers and how this will be monitored. ***This will be included when the actuarial valuation results are known, along with any issues regarding the increasing maturity of the Fund.***

7. Valuation Assumptions and Funding Model

7.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

7.2 The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future Price Inflation

7.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Future Pay Inflation

7.4 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. However, in recent years, this model has broken down due to pay freezes in the public sector and continuing restraint to restrict salary growth across many sectors.

Future Pension Increases

7.5 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

7.6 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

7.7 The discount rate that is adopted will depend on the funding target adopted for each employer.

7.8 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to

be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate.

- 7.9 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission require it.
- 7.10 The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- 7.11 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

- 7.12 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

- 7.13 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

8. Deficit Recovery/Surplus Amortisation Periods

- 8.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.
- 8.2 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers’ contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.
- 8.3 The period that is adopted for any particular employer will depend on:
- The significance of the surplus or deficit relative to that employer’s liabilities;
 - The covenant of the individual employer and any limited period of participation in the Fund; and

- The implications in terms of stability of future levels of employers' contribution.

9. Pooling of Individual Employers

- 9.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.
- 9.2 However, certain groups of individual employers can be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.
- 9.3 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

10. Cessation Valuations

- 10.1 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.
- 10.2 In assessing the deficit on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

11. Links with the Statement of Investment Principles (SIP)

- 11.1 The main link between the Funding Strategy Statement (FSS) and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.
- 11.2 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

12. Risks and Countermeasures

- 12.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of

employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

- 12.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

13. Financial Risks

- 13.1 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

- 13.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% per annum in the real discount rate will decrease/increase the liabilities by ten%, and decrease/increase the required employer contribution by around 2.5% of payroll.

- 13.3 However, the Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

- 13.4 The Committee may also seek advice from the Fund Actuary on valuation related matters.

- 13.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

14. Demographic Risks

- 14.1 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by between 0.5 to 1%.

- 14.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

- 14.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

- 14.4 However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to

pay additional amounts into the Fund to meet any additional costs arising from early retirements.

15. Regulatory Risks

- 15.1 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.
- 15.2 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.
- 15.3 However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

16. Governance

- 16.1 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:
- Structural changes in an individual employer's membership;
 - An individual employer deciding to close the Scheme to new employees; and
 - An employer ceasing to exist without having fully funded their pension liabilities.
- 16.2 However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.
- 16.3 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

17. Monitoring and Review

- 17.1 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.
- 17.2 The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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Pension Board

Date:	6 March 2017
Classification:	General Release
Title:	Risk Register Review
Report of:	Steven Mair City Treasurer
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 scoring process for the Pension Fund Risk Register and presents a revised scoring matrix which is being proposed to evaluate the impact score of the residual risk.

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper and are invited to comment on the proposed scoring matrix for the impact scores.
- 2.2 The Board members consider an area of the Risk Register to focus on for the next meeting.

3. Background

- 3.1 As previously reported to the Pensions Board, 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. This includes making recommendations to the Committee concerning good governance.
- 3.3 Attached at Appendix 1 is the current Pension Fund Risk Register, which was approved by the Pension Fund Committee in November 2016. The risk register is a 'live' document and risks will change due to management action and the external environment.
- 3.4 The Pension Board members agreed at the preceding meeting to review the risk register scoring process.

4. Focus Area: Risk Register Scoring Process

- 4.1 The risk register for the Pension Fund was established and first approved by the Pension Fund Committee (the 'Committee') in May 2015. The risk register uses the scoring matrix from the Tri-Borough risk management guidance which is set out in Appendix 2.
- 4.2 At the Committee meeting in June 2016, it was reported that the risk register scoring matrix which is used to evaluate the residual risk was very subjective and would benefit from greater definition. It was agreed that a more quantitative approach should be explored which would be more appropriate and specific to the Pension Fund.
- 4.3 Officers from the Tri-Borough Pensions Team met in October 2016 to review and develop the current scoring process, which could then be applied consistently across the three Pension Funds' risk registers.
- 4.4 It is proposed that the impact scores for each risk be broken down further and rated against the impact on cost/budget or the impact on members of the scheme as outlined below:

Impact Description	Impact on Cost/Budget	Impact on Members
1 Very Low	Up to £50k	Up to 10 members
2 Low	From £50k to £200k	11 to 100 members
3 Medium	From £200k to £1m	101 to 500 members
4 High	From £1m to £50m	501 to 5000 members
5 Very High	Above £50m	Above 5000 members

- 4.5 The Pension Board are invited to comment on the proposed changes to the scoring matrix. The updated risk register, which will incorporate the revised

scoring process, will then be presented to the Pension Fund Committee at their next meeting for approval.

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:

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BACKGROUND PAPERS:

None

APPENDICES

Appendix 1 - Pension Fund Risk Register, reviewed November 2016

Appendix 2 – Risk Register Scoring Matrix for Tri-Borough

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Appendix 1: Pension Fund Risk Register, November 2016

Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale

Pension Fund risk register, November 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Next 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	March 2016
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	March 2016
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	3	Low 6 	City Treasurer	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next 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	March 2016
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	March 2016
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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next 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	March 2016
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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next 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. 	2	2	Very Low 4 	City Treasurer	March 2016
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	March 2016
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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
12	<p>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.</p>	<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	<p>Low 9</p> 	City Treasurer and Acting Director of HR	March 2016
13	<p>OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.</p>	<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	<p>Very Low 4</p> 	City Treasurer	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
14	OPERATIONAL: GOVERNANCE London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	<ul style="list-style-type: none"> Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 	3	2	Low 	City Treasurer	March 2016
15	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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
16	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	March 2016
17	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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
18	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	March 2016
19	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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
20	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 	2	2	Very Low 4 	City Treasurer	March 2016
21	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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
22	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	March 2016
23	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	March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact			
24	<p>OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	<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 tupe 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	<p>Low</p> <p>6</p> 	Acting Director of HR	March 2016
25	<p>Operational: Administration BT unable to provide monthly or end of year interface files in a format suitable for Surrey CC to update service records and undertake day to day operations. Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers.</p>	<ul style="list-style-type: none"> Issue has been escalated by the Chief Executive for high level resolution with BT Test files are currently with SCC Actuary undertakes data cleansing on the service records and is confident this will mitigate the inaccuracies in service records 	4	3	<p>Medium</p> <p>12</p> 	Acting Director of HR	March 2016

Scoring (Impact)

Impact Description	Category
1 Very Low	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
2 Low	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
3 Medium	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
4 High	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery
5 Very High	Cost/Budgetary Impact
	Impact on life
	Environment
	Reputation
	Service Delivery

Scoring (Likelihood)

Descriptor	
1. Improbable, extremely unlikely	

2. Remote possibility
3. Occasional
4. Probable
5. Likely

Description
£0 to £25,000
Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
Minor short term damage to local area of work.
Decrease in perception of service internally only – no local media attention
Failure to meet individual operational target – Integrity of data is corrupt no significant effect
£25,001 to £100,000
Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
Localised decrease in perception within service area – limited local media attention, short term recovery
Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
£100,001 to £400,000
Permanent disability or injury or illness
Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
£400,001 to £800,000
Individual Fatality
Borough wide damage with medium or long term effect to local ecology or community
Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
£800,001 and over
Mass Fatalities
Major harm with long term effect to regional ecology or community
Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Likelihood Guide
Virtually impossible to occur 0 to 5% chance of occurrence.

Very unlikely to occur 6 to 20% chance of occurrence
Likely to occur 21 to 50% chance of occurrence
More likely to occur than not 51% to 80% chance of occurrence
Almost certain to occur 81% to 100% chance of occurrence



City of Westminster

Pension Board

Date:	6 March 2017
Classification:	General Release
Title:	Key Performance Indicators Update
Report of:	Sarah Hay HR Advisor, Pensions, People Services
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

- 1.1 The purpose of this paper is to provide the Board with an update on the Key Performance Indicators (KPIs) showing Surrey County Council's (SCC's) performance for the period December 2016 to January 2017. The detailed KPIs are shown in appendix 1.

2. Current Position

- 2.1 Up until October 2016, KPIs were provided by Surrey to Westminster City Council (WCC) on a monthly basis. However following a meeting between the two parties on 25th October, it was suggested by WCC and agreed by SCC that these reports would be provided on a quarterly basis in future. The reason for moving to a quarterly report was so that SCC would have the necessary time to provide WCC with the more detailed and meaningful statistics that were requested to more accurately measure performance.
- 2.2 The additional details requested from SCC were drawn from the section 101 agreement between WCC and SCC and agreed in discussion with procurement.
- 2.3 The new KPIs became live on 1st December and are attached in appendix 1. These are for just 2 months to try and bring us into line to present full quarterly reports to Pension Committee.

- 2.4 WCC see this as a living document and it will be constantly reviewed to ensure that it provides the data required by WCC, Pension Board and Pension Committee to hold SCC to account in delivering an improved service.
- 2.5 People services met with representatives from SCC's pension team on 13th February 2017 to discuss the new KPI structure and review ongoing performance concerns highlighted within the KPIs. People services addressed with SCC the need to improve KPI performance levels in the following areas:
 - 2.5.1 Where members are waiting for the payment of their pension benefit.
 - 2.5.2 Retirement options issued to members
 - 2.5.3 Deferred benefits and payment of lump sum.
 - 2.5.4 Transfers out of non-LGPS schemes.
 - 2.5.5 Pension/redundancy estimates.
 - 2.5.6 Responding to members' correspondence.
- 2.6 SCC have acknowledged the need for a tighter control of case management in order to improve the KPIs. They have reorganised the pension administration team with two new team managers overseeing the running of our service. We will expect to see an improvement in our KPIs moving forward and SCC have committed to this aim.

3. Summary

- 3.1 These new KPIs provide WCC with greater clarity of performance and enable us to identify any areas of concern and to work with SCC or BT if required to help improve the service.

Appendix:

Appendix 1 – Key Performance Indicators scores

MONTHLY RESULTS FOR DECEMBER AND JANUARY BASED ON NEW KPI REPORTING

Description	Target time/date as per Partnership Agreement	No of Cases December	Actual Score Dec	No of Cases January	Actual Score Jan	Comments	
PENSION ADMINISTRATION							
DEATH BENEFITS							
Notify potential beneficiary of lump sum death grant	5 days	NA	N/A	NA	N/A		
Write to dependant and provide relevant claim form	5 days	1	100%	1	100%		
Set up any dependants benefits and confirm payments due	14 days	5	TBC	2	50%	1 late case in January	
RETIREMENTS							
Retirement options issued to members	5 days	2	50%	10	80%		
New retirement benefits processed for payment following receipt of all necessary documents	5 days	7	72%	3	100%	2 cases late in Dec	
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	7	100%	3	100%		
REFUNDS OF CONTRIBUTIONS							
Refund paid following receipt of claim form	14 days	4	100%	9	100%		
DEFERRED BENEFITS							
Statements sent to member following receipt of leaver notification	30 days	9	89%	7	71%	Volumes expected to increase once leaver forms received from BT and from other scheme employers	
DEFERRED PAYMENTS							
Notification to members 3 months before payments due	3 months	8	Average 2 weeks in advance	11	Average 2 weeks in advance	Work process amended from February 2017	
Lump Sum (on receipt of all necessary documentation)	5 days	8	50%	10	50%		
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run	8	100%	10	100%		
NEW JOINERS							
New starters processed	30 days	20	100%	1	100%	Awaiting interface from BT so numbers only show records created manually	
TRANSFERS IN							
Non LGPS transfers-in quotations	30 days	2	100%	16	TBC	All Quotations issued within statutory timescales. Agreement at meeting between SCC and WCC in Feb 2017 that future reports will identify LGPS transfers as additional measure.	
Non LGPS transfers-in payments processed	30 days	NA		NA			
TRANSFERS OUT							
Non LGPS transfers-out quotations processed	30 days	7	86%	20	70%		
Non LGPS transfers out payments processed	30 days	2	100%	4	100%		
ESTIMATES							
1-10 cases	5 Days	9	89%	5	60%	2 cases late in January	
11-50 cases	Agreed with WCC	NA	NA	NA	NA		
51 cases or over	Agreed with WCC	80 plus	100%	TBC	TBC	Large exercise carried out on behalf of WCC in Dec and Jan	
MATERIAL CHANGES							
Any changes to data which materially affect actual or potential benefits to be processed within 30 days of receiving all necessary data	30 days	44	100%	221	100%	Includes Change of Bank account, address, expression of wish. Large number of bulk bank changes in January.	
BUYING ADDITIONAL PENSIONS							
Members notified of terms of purchasing additional pension	15 days	0	100%	1	100%		
Monthly Pensioner Payroll							
Full reconciliation of payroll and ledger report provided to WCC	Last day of month		100%		100%		
Issue of monthly payslips	3 days before pay day		100%		100%		
RTI file submitted to HMRC	3 days before pay day		100%		100%		
BACS File submitted for payment	3 days before pay day		100%		100%		
P35	EOY		Annual		Annual		
Annual Exercises							
ANNUAL BENEFIT STATEMENTS Issued to Active members	31 August each year		Annual		Annual		
ANNUAL BENEFIT STATEMENTS Issued to Deferred members	31 August each year		Annual		Annual		
P60s Issued to Pensioners	31 May each year		Annual		Annual		
Non LGPS transfers-in quotations processed within 20 days	31 May each year		Annual		Annual		
Apply Pensions Increase to Pensioners	April each year		Annual		Annual		
Pensioners Newsletter	April each year		Annual		Annual		
CUSTOMER SERVICE							
CORRESPONDENCE							
Acknowledgement if more than 5 days	2 days	TBC	TBC				
Response	10 days	18	89%	28	75%		
3rd party enquires	10 days	TBC	TBC				
Helpdesk Enquiries							
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled	432	79% FPF	561	83% FPF	FPF means enquiries resolved as 'First Point Fix' by Helpdesk team that did not require referral to Operations team	
Customer Surveys							
Monthly survey to retirees	Percentage Satisfied with Service		Quarterly		Quarterly	Due at End of March	

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Pension Board

Date:	6 March 2017
Classification:	General Release
Title:	Year End Administration Update
Report of:	Sarah Hay HR Advisor, Pensions, People Services
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

- 1.1 The purpose of this paper is to provide the Board with an update on the administration of the pension scheme for the year 2016/2017.

2. Background

- 2.1 People services have a small team that provide professional support to Westminster City Council (WCC), BT and Surrey County Council (SCC), plus numerous admitted bodies as well as expert support to our current and ex-employees.
- 2.2 Since our go live date with BT on 1st April 2015 there have been a number of issues with regards their ability to provide correct and timely pension data to SCC and Teachers Pensions (TP). This has had an impact on people services in that we need to be heavily involved in detailed administration matters in order to ensure individual cases are dealt with and the overall service is improved. Prioritisation of workload has by necessity focused on day to day operational matters and the management of individual cases. There are a number of tasks and projects that have been re-prioritised and delayed in order to focus on the pensions improvement plan including the writing of the discretionary policy and the PAS (Pension Administration Strategy) that was due to be presented to this Board.

- 2.3 People services have moved a member of staff into the pension administration team to help with administration tasks; this person does have LGPS pension knowledge so this is helping in resolving individual cases and delivering activities on the pension improvement plan. They are also receiving training on Teachers Pension Scheme administration so they can assist with these matters too.

3. Annual Benefit Statements

- 3.1 These were due to be sent to LGPS staff by 31st August 2016, however we needed to withhold approximately 250 due to an issue with absence periods for these staff. BT has been addressing these absence records as part of the pension improvement plan.
- 3.2 On release of the majority of the ABS a number of queries were raised by WCC staff in regards to the information reported on these documents. These issues were passed to BT and a root cause analysis was done on them to identify issues that needed to be resolved. A new file was prepared by BT to include both the missing employees plus the correction to the issues identified by employees in mid-February. Following quality assurance of samples of the data by our team this revised report was sent to Surrey during the week ending 24th February for their consideration and feedback.

4. Western Union – Payment of pensions to overseas based pensioners

- 4.1 We have a number of pensioners who are based overseas who are paid directly into their bank accounts, this is not via Western Union. We are conscious that for pensioners based in this country we would be advised of any death via a number of different routes, this is not necessarily the situation for overseas pensioners.
- 4.2 Western Union offer a 'life certificate' service whereby for a small fee pensioners will be required to attend their local Western Union office to identify themselves for a small payment in return. Many companies use this service and there is evidence that the cost involved in carrying out this function on a tri-annual basis pays for itself by identifying erroneous payments.
- 4.3 SCC has provided WCC with a list of our overseas pensioners and we will be following this up with finance to identify costs.

5. Summary

- 5.1 We are continuing to work with both BT and SCC on all the items outlined above (not item 4). It is now 22 months since we went live with BT and it is accepted that we are not where we should be and an improvement plan is in place to identify the issues and we continue to work with BT to ensure these areas are addressed. We have also had issues with SCC's service delivery and we now have increased and more detailed KPIs in place to monitor their performance and

have regular meetings to ensure that we are aware of any issues that will affect WCC LGPS members.

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Pension Board

Date:	6 March 2017
Classification:	General Release
Title:	Pension Board Forward Plan
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 presents the forward plan of work for the Pension Board over the coming twelve months and incorporates the forward plan for the Pension Fund Committee.
- 1.2 Representatives of the Board are invited to attend the next Pension Fund Committee meeting to be held on 21st March 2017 to agree the areas of work to be distributed between the two separate Bodies.
- 1.3 This report also proposes, following discussion at the Pension Board Meeting on the 29th November, areas where the Board may offer further levels of Scrutiny.

2. Recommendations

- 2.1 The Board notes the contents of this paper and agrees areas of Pension Fund work which could be undertaken by the Pension Board to discuss at the meeting with the Pensions Committee on the 21st March.
- 2.2 The Board nominates two representatives to attend the Pension Fund Committee meeting on 21st March 2017.

3. Background

- 3.1 The existing Forward Plan identifies the expected agenda items for the Board over the next twelve months and is attached as Appendix 1. The Forward Plan for the Pension Committee over the same period is also included for information (Appendix 2).
- 3.2 The Board has been invited by the Chair of the Pension Fund Committee to attend the Committee's next meeting, to determine the areas of work which could be carried out by the Pension Board. This will help develop the Forward Plan for both Bodies over the coming year by ensuring that there is adequate coverage of the governance review work required for the Pension Fund and also avoid the duplication of these tasks being carried out by both the Committee and the Board.
- 3.3 At the meeting on the 27th November the Board asked for suggestions into areas they could scrutinise which did not duplicate work being undertaken by the Pensions Committee.
- 3.4 The role of Pension Boards is to assist the Administering Authority in ensuring compliance with the regulatory framework which the fund operates in. It therefore is not in its remit to challenge individual Investment Decisions although they should scrutinise the overall decision making process being used.
- 3.5 As such it would wise to look at the following items:
- 3.6 Ensure that the new Investment Strategy Statement (ISS) and the Funding Strategy Statement (FSS) comply with the changes in legislation that have made them mandatory.
- 3.7 Although the Pensions Committee reviews Pensions Administration Key Performance Indicators at each meeting the Pensions Board could review items such as The Administration Strategy, Admission Strategy in more depth.
- 3.8 Although the Board had an item on the London Collective Investment Vehicle (CIV) at the November 2016 meeting, it would wise to have half yearly updates on CIV transfer progress and potential changes to the legislation and approach required for Pooling to ensure compliance to Government requirements.

- 3.9 The Board is invited to review the proposed Forward Plan and indicate any amendments.
- 3.10 The Board are also invited to identify any areas of work from the Forward Plans of both the Pension Board and the Pension Committee which could be amended or distributed differently taking on board comments in sections 3.6 to 3.8.
- 3.11 It is recommended that the Board nominates two representatives to attend the Pension Fund Committee meeting on Tuesday 21st March 2017, to present and discuss the Board's proposals.
- 3.12 The Pension Fund Committee meetings cycle and Pension Board meeting cycle meeting dates have been approved. The table below sets out the dates of these meetings:

Pension Fund Committee Meeting	Pension Board Meeting
Thursday 22nd June 2017	6 th July 2017
Thursday 12th October 2017	13 th November 2017
Thursday 7th December 2017	29 th January 2018
Thursday 8th March 2018	Early May 2018 (next municipal year)

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

Pete Carpenter pcarpenter@westminster.gov.uk or 020 7641 2832

BACKGROUND PAPERS: None

APPENDICES:

- Appendix 1 – Pension Board Forward Plan - November 2016
- Appendix 2 – Pension Fund Committee Forward Plan – November 2016

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PENSION BOARD Forward Plan– March 2017

Area of work	9 May 2017	6 July 2017	13 November 2017	29 January 2018
Standing Items	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan	Pension Fund Committee minutes Risk Register Review Pensions Administration Key Performance Indicators Forward Plan
Governance	Training Update Regulatory Compliance Review Contracts Monitoring	<i>Appointment of Chair and Vice Chair</i> <i>(Brought forward to 6 March 2017)</i> Annual Report on Pension Board Activities	2018/19 Meeting Dates Knowledge & Skills Policy and Training Needs Annual Review	
Pensions Administration	Pensions Administration Strategy Discretionary Policies	Annual Benefit Statement Timeline	Promotion of Scheme Membership	
Finance	Pension Fund Annual Accounts and Audit Update	Pension Fund Fees and Costs	Review of Pension Fund Annual Report	

Area of work	9 May 2017	6 July 2017	13 November 2017	29 January 2018
	FSS Review			

PENSION FUND COMMITTEE

Forward Plan – November 2016

Area of work	21 Mar 2017	22 Jun 2017	12 Oct 2017	7 Dec 2017
Standing Items	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan – Pension Board to attend for joint discussion on future work	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Business Plan Internal Audit Findings Admission Policy and Risk Register Risk Register scoring review Scheme Advisory Board Key Performance	Pension Fund Annual Report and Accounts 2016/17 Progress on compliance with TPR Code of Practice Review of Governance Compliance Statement	Annual report of Pension Board activities Review of Pension Fund expenses	

Area of work	21 Mar 2017	22 Jun 2017	12 Oct 2017	7 Dec 2017
	Indicators (if available)			
Investments	Pooling and CIV update Investment Strategy Statement (replaces SIP) Investment Strategy Review Feedback from Annual fund manager monitoring day	Pooling and CIV update Investment Strategy Review Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update Investment Strategy Review	Pooling and CIV update Investment Strategy Review Fund Manager Monitoring Arrangements
Funding	Final Actuarial Valuation report Final Funding Strategy Statement			