



CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Monday 18th January, 2016**, Rooms 1A, 1B & 1C - 17th Floor, City Hall.

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

Also Present: George Bruce (Future Director of Treasury and Pensions), Nikki Parsons (Pension Fund Officer), Neil Sellstrom (Tri-Borough Pensions Team), Trevor Webster (Senior Human Resources Manager) and Toby Howes (Senior Committee and Governance Officer).

Apologies for Absence: Susan Manning (Scheme Member 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 AND MATTERS ARISING

3.1 RESOLVED:

That the Minutes of the meeting held on 19 October 2015 be signed by the Chairman as a correct record of proceedings.

3.2 Members noted the Director of Human Resource's advice following the previous meeting that Councillor Adnan Mohammed's position as Deputy Cabinet Member for Finance and Corporate Services did not constitute a conflict of interest with his membership of the Board.

- 3.3 Trevor Webster (Senior Human Resources Manager) advised that further results were awaited in respect of the Public Service Governance and Administration Survey and that once these had been received, the data would be collated and reported back to the next meeting of the Board.

4 MINUTES OF PENSION FUND COMMITTEE

- 4.1 The Board noted that the Minutes of the last Pension Fund Committee meeting held on 16 November 2015 would be circulated separately.

5 RISK REGISTER REVIEW

- 5.1 Neil Sellstrom (Finance Consultant) presented the report which focused on the risk relating to operational administration – failure of financial system. A tri-borough contract for a new financial system with BT had gone live in April 2015, however a number of challenges had arisen during its implementation, both in terms of Finance and Human Resources (HR) functions. The main issues had been concerning problems experienced in respect of payment of lump sum payments for Pension Scheme members and payment to suppliers for services provided. These issues were particularly apparent in April and May 2015 when the new financial system had just gone live. Neil Sellstrom advised that there had not been a failure of a financial system, but the risk posed was the possibility of not being able to use the financial system which also impacted upon a number of other financial functions beyond pensions. He stated that initially costs had not been seen to be coming in, which also raised issues in respect of completing end of year accounts. Since then, a comprehensive testing of information had been undertaken and significant progress had been made in resolving issues on the financial side.
- 5.2 Nikki Parsons (Pension Fund Officer) advised that a ‘workaround’ solution had been put in place to ensure that payments to Pension Scheme Members and suppliers were being made as steps were being taken to resolve the issue.
- 5.3 Trevor Webster (Senior Human Resources Manager) added that officers’ functionality at the Council had improved since the introduction of the new financial system, however the pension administrator, Surrey County Council, was still experiencing problems as a result of the continuing issues with the functionality of the BT interface. As a result, Council officers were having to provide Surrey County Council with information on matters such as leavers and new employees.
- 5.4 Members enquired about the cost implications of the additional work being undertaken by the Council because of the problems encountered and whether the Council would be compensated. Members also asked whether additional work would be required in terms of completing annual accounts. In terms of risk rating, it was queried whether this took account of the mitigating actions being taken, or whether these mitigating actions were put in place in response to the risk rating.
- 5.5 In reply to issues raised by the Board, Nikki Parsons advised that the problems experienced had meant more work for the Council in completing

end of year accounts. She advised that the auditors were analysing the accounts more thoroughly than last year and were looking at areas such as contributions, payments and reconciliations, however they had been satisfied with what they had looked at so far. Nikki Parsons informed Members that she had visited the BT offices in Jarrow with Finance colleagues to discuss the issues involved and although there had already been some significant improvements, the Council was still taking on more work and two contractors had been brought in to assist in data testing. Weekly conference calls with BT were also taking place and an issue log had been produced recording all the problems encountered. Nikki Parsons advised that the risk rating reflected the residual risk, however only a small number of officers dealt with pensions, although it did benefit from tri-borough support. The risk had increased as the end of the financial year neared.

- 5.6 Trevor Webster added that the risk rating also depended on how fragile the work around is and if existing staff left the Council, the loss of experience would increase the risk. He advised that commercial discussions were taking place with BT concerning possible compensation because of the problems experienced and the additional work required to be undertaken by Council officers as a result.
- 5.7 A Member commented that he was satisfied with the remedial action being taken to date and noted that most risks were rated as either low or medium risk. Another Member asked if the Council was confident that BT could resolve the issues satisfactorily and remarked that other local authorities' experience of working with BT had been patchy. The question was also raised about whether schools could give notice to opt out of the BT contract. The Board also sought further information in respect of how any compensation from BT would be pursued.
- 5.8 In response, Nikki Parsons stated that initially officers did not think BT had the resources or knowledge to resolve the issues, so visits to BT offices had taken place for knowledge sharing so that BT had a greater appreciation and understanding of the issues and the resulting implications of them. Neil Sellstrom added that the pensions interface with BT and Surrey County Council had now been identified as the main priority to resolve.
- 5.9 Trevor Webster informed the Board that it had been recognised that BT had not initially allocated sufficient staff to support work around pensions and also to the Council in general. However, the Council had convinced them of the need for more staff and BT were now in the process of undertaking this. The Board was advised that schools did have the right to opt out of the BT contract, provided they gave sufficient months notice. However, the payroll providers still needed to interact with BT in order to ensure that information was accurately recorded and providing they updated the pensions portal accordingly, then no problems with payments would occur. Trevor Webster confirmed that the Council would undertake any pursuit of compensation from BT as the issues experienced had created a host of in-house costs. This would involve high level commercial discussions between BT and the Council. He added that Surrey County Council was considering introducing charges for IT costs.

- 5.10 The Board requested an update on progress with BT and Surrey County Council in addressing the problems in respect of lump sum and supplier payments, including identification of additional potential costs to the Pension Fund driven by the BT interface issue, at the next meeting. The Board also requested that the next Risk Register Review report focus on two risks, pension legislation and regulation changes and the introduction of European Directive MiFID II at the next meeting.

6 PENSION ADMINISTRATION - COSTS UPDATE

- 6.1 The Board considered a confidential report providing an update on pension administration costs.

7 TRAINING UPDATE

- 7.1 The Board considered a confidential report on training to date and future training that would be available to Members.

8 PENSION FUND BENCHMARKING - COSTS

- 8.1 Neil Sellstrom gave a verbal update on this item whilst further data was awaited to enable a report to be produced and considered at a future meeting. He advised that the Pension Fund sustained costs both in terms of investments and in administration. The brunt of the costs were on the investment side and it was important that local authorities identified all of these in order to be able to make meaningful comparisons with each other. Neil Sellstrom stated that the Scheme Advisory Board had provided guidance on what data to provide, however whilst some local authorities had provided comprehensive information on investment costs, other had not done so. As a result, some funds had appeared more costly than others because they had included more costs, such as transactional costs. Neil Sellstrom confirmed that all tri-boroughs had fully complied in providing cost details.
- 8.2 Members asked if any meaningful comparisons with other funds could be made at this stage and whether there would be sufficient information by April to undertake a more comprehensive analysis comparing funds.
- 8.3 In reply, Neil Sellstrom advised that the size of funds varied considerably, with some such as Greater Manchester and West Midlands local authorities' funds huge by comparison with others. As a result, costs would be much greater for such funds and so this complicated the ability to make direct comparisons. The Board noted that the Council appointed a Performance Manager to monitor performance of its Fund, although not every local authority used one. Neil Sellstrom advised that there would be more information available to compare funds in April, although possibly not enough to undertake a thorough comparison. He added that data from 2014-15 could be used for the comparison analysis. Members noted that Finance would also be under pressure to complete accounts for 2015-16 that closed on 31 March 2016.

- 8.4 The Chairman welcomed the opportunity at the next meeting to consider a report comparing data from 2014-15 which would provide a bigger picture in providing comparisons of costs with other funds and allow for some interim conclusions to be drawn. Neil Sellstrom added that the report would also include details of the London Collective Investment Vehicle's (CIV) response to the consultation on asset pooling.
- 8.5 Members raised the issue of local authorities investing in local regeneration schemes and the risks that can be associated with it. Members asked whether investing in infrastructure stock was rising and was this becoming a more attractive investment.
- 8.6 In reply, Neil Sellstrom advised that providing there was a sound business case in investing in local regeneration and infrastructure schemes, there was no harm in doing so, however careful consideration was needed in respect of issues such as potential conflict of interest. He added that infrastructure stocks would rise if local authorities found such investments easier to access and the London CIV may consider such investments in the future.

9 AUDIT ARRANGEMENTS

- 9.1 Neil Sellstrom presented the report and advised that the Board's Terms of Reference stated that a key element of its role was to ensure effective and efficient governance and administration of the pension scheme. Both internal and external auditing played a key role in providing assurance that the Fund operated soundly. Members heard that an internal audit had been carried out in October 2014 which had resulted in five recommendations being made. A follow up review in June 2015 had concluded that four of these recommendations had been fully addressed and the other one was in progress. The Board noted that the pension administrative arrangements were due to be internally audited as part of the 2016/2017 Audit Plan.

10 DATA FOR THE TRIENNIAL VALUATION UPDATE

- 10.1 Members considered a confidential paper on the triennial valuation update. The Board noted that it would receive an update on this item at the next meeting.

11 PENSION BOARD FORWARD PLAN 2016-2017

- 11.1 Nikki Parsons presented a suggested Forward Plan 2016-17 for the Board that included items Members may wish to consider. Members noted that the Risk Register was a standing item and that a report showing comparisons of costs with other local authorities and including the London CIV's response to the asset pooling consultation would be considered at the next meeting. It was also noted that the next meeting of the Pension Fund Committee would take place on 22 March, and not 16 March as listed on the Forward Plan. Nikki Parsons suggested that the Board next meet in early May to ensure that the relevant data was available to consider the items suggested and also taking

into account the dates for the Pension Fund Committee. The Chairman added that other items would be added during the course of the year.

12 DATE OF NEXT MEETING

12.1 Members agreed that the next meeting of the Board take place on Tuesday, 10 May 2016 at 6.30pm.

13 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

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

14 MINUTES

14.1 RESOLVED:

That the confidential Minutes of the meeting held on 19 October 2015 be signed by the Chairman as a correct record of proceedings.

15 MINUTES OF THE PENSION FUND COMMITTEE

15.1 The Board noted that the confidential Minutes of the last Pension Fund Committee meeting held on 16 November 2015 would be circulated separately.

The Meeting ended at 8.09 pm.

CHAIRMAN: _____

DATE _____