

<b>Date:</b>	<b>10 May 2016</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Risk Register Review</b>
<b>Report of:</b>	<b>Steven Mair</b> <i>City Treasurer</i>
<b>Wards Involved:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective Control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no financial implications arising from this report</b>

## **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 two strategic risks to the Pension Fund, resulting from a change in pension legislation or regulation and the introduction of the European Directive MiiFID II.

## **2. Key Matters for the Board**

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

## **3. Background**

- 3.1 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 updated Pension Fund Risk Register, which was reported to the Pension Fund Committee (the 'Committee') in March 2016. This supersedes the version which was previously presented to the Pension Board. 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 which sections of the Risk Register they wish to focus on in future meetings.

#### **4. Focus Area: Strategic: Regulation – Pensions Legislation or Regulation Changes**

4.1 *"Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration."* is one of the risk areas which Board members have decided to focus on. This is referenced as Risk 8 in Appendix 1.

4.2 This risk has a medium risk classification. Strategic risks are generally inherent and cannot be mitigated against although the Pension Fund Committee needs to be aware of these risks particularly when making strategic decisions.

4.3 The Local Government Pension Scheme (LGPS) is governed by key legislation, namely:

- The LGPS Regulations 2013
- The LGPS (Transitional provisions, Savings & Amendment) Regulations 2014
- The LGPS (Management & Investment of Funds) Regulations 2009

4.4 The Department of Communities and Local Government is the responsible authority appointed by the Secretary of State for Pensions and they must consult with the scheme managers on any proposed changes to the legislation. Westminster City Council is the administering authority for the Scheme and therefore receives all consultations directly.

4.5 Officers receive briefings on any proposed changes from various bodies including the Local Government Authority (LGA) and also from the Chartered Institute of

Public Finance & Accountancy (CIPFA) and the Pensions & Lifetime Savings Association.

- 4.6 Draft responses to consultations are prepared by officers when it is considered in the interest of the Pension Fund to do so. The proposed changes to legislation and any consultation responses are reported to the Pension Fund Committee.
- 4.7 Recent changes in legislation and regulations, including consultations, are discussed below:

#### Draft Investment Regulations

The Government consulted in Quarter 3, 2015 on relaxing the statutory limits placed on investing in asset types and requiring schemes to develop their own risk controls. Each scheme will be required to publish an Investment Strategy Statement (ISS) that will be scrutinised by Government. Westminster's draft ISS will be presented to the Pension Committee next September.

The draft investment regulations provide the Government with new powers to direct investment policy. These are mainly aimed at enforcing pooling (see below).

#### Pooling Criteria

At the same time as the draft investment regulations were issued, the Government set out its criteria for pooling LGPS investments, into collective pools of £25 billion. The Government consider that collective investment will save costs, improve performance and enable greater investment in infrastructure. Initial plans for pooling were required by February 2016 with more detailed plans and savings by July 2016.

The Council has responded to the criteria by setting out its plans to participate in the London CIV (separate paper on the agenda), which is compliant with the pooling criteria. We are working with the London CIV to prepare the July submission.

The impact of pooling is that the responsibility for appointing and monitoring fund managers will pass from the Pension Fund Committee to the London CIV. The Committee will retain responsibility for setting investment strategy.

#### Local Government Pension Scheme Regulations 2013

These regulations changed the pension fund benefit structure from final salary to career average from April 2014. This change had a major impact on the recording of benefit entitlement and consequently required changes to pension

administration systems and calculations. The Pension Fund Auditor will be able to discuss any issues identified in their testing.

#### LGPS (Amendment) (Governance) Regulations 2015

These regulations introduced Pension Boards from April 2015. Westminster's Board has operated in line with these regulations.

4.8 The Pension Fund has complied with the various changes in regulations and matters have been discussed with the Committee as they arise.

### **5. Focus Area: Strategic: Regulation – Introduction of European Directive MiFID II**

5.1 "Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs" is the other area which Board members have decided to focus on. This is referenced as Risk 9 in Appendix 1.

5.2 This risk has a medium risk classification.

5.3 The Markets in Financial Instruments Directive (MiFID) is the EU legislation regulating firms providing services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

5.4 Under MiFID II, local authorities will be defaulted to retail client status – currently they are professional clients. There will be the opportunity to elect for professional client status, where Funds have to demonstrate to each manager they meet certain qualitative and quantitative criteria.

5.5 When the directive comes into force there is a risk that a manager could eject a Fund from holding a product outside of their scope, thus resulting in a 'fire sale' of assets.

5.6 Recent indications are that MiFID II will not proceed in its current form and completion has been delayed. Should the directive continue in its current form, Governments have implementation options, including the classification of Local Authorities. In addition, fund managers and Local Authorities can agree to move their status to professional clients. Fund Managers will wish to continue existing relationships and officers believe the revised regulations will not impact on the investment opportunities.

### **6. Next Meeting**

6.1 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:**

- Markets in Financial Instruments Directive II Implementation – Consultation Paper I  
<http://www.fca.org.uk/static/documents/consultation-papers/cp15-43.pdf>

**APPENDICES**

**Appendix 1 - Pension Fund Risk Register, reviewed March 2016**