

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Committee / Panel	<b><u>PENSIONS</u></b>	Date	<b>17/04/2013</b>
Originating Service Group(s)	<b><u>WEST MIDLANDS PENSION FUND</u></b>		
Contact Officer(s)/ Telephone Number(s)	<b><u>GEIK DREVER</u></b> <b><u>2020</u></b>		
Title/Subject Matter	<b><u>ASSURANCE FRAMEWORK SUPPORTING THE ANNUAL</u></b> <b><u>GOVERNANCE STATEMENT APRIL 2013</u></b>		

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**RECOMMENDATIONS**

Members are requested to note the background to the assurance framework and updated operational practices.



# **Assurance Framework** Supporting The Annual Governance Statement

April 2013

# Assurance Framework Supporting The Annual Governance Statement April 2013

## 1. Background

- 1.1 The Annual Report and Accounts contains the City Council's Annual Governance Statement as required by the accounting standards that apply to local government. The application to the West Midlands Pension Fund is limited, as the statement covers all of the Council's activities. The Director and senior pension services staff do make declarations in support of the statement and these are based upon a detailed bespoke 'assurance framework' that has been developed for the Fund. It is designed to give assurance to the Committee and interested parties that the administration of the Fund is operating in a satisfactory manner. This report is to highlight, for the Committee, the assurance framework and matters that have been managed during the last 12 months.
- 1.2 This report was prepared and agreed by Geik Drever, Director of Pensions from 1 April 2012.

## 2. Assurance Framework

- 2.1 The assurance framework is to ensure the Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices, where appropriate, and has high customer service satisfaction. The framework in diagrammatic form is pictured on page 11.
- 2.2 There have been no adverse matters arising from the work behind the assurance framework. The following matters are highlighted as indications of the activities within the framework and the outcomes:

### 2.2.1 External Audit

The Fund is subject to audit by PWC. The 2012 audit produced no material issues for management or any matters to draw to members' attention. It has been agreed with PWC for the Fund audit that there will be a reduction in the annual fee level and that WCC Internal Audit activity will increase accordingly, to ensure there is no reduction in audit activity. The 2013 audit will start shortly.

### 2.2.2 Risk Management

An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to annual review and quarterly monitoring. It is available to internal and external audit.

The risks are identified under the following headings:

- **Top overall risks:** to ensure monitoring and review of top risks across all areas of the Fund;
- **Investment & assets:** to ensure the assets of the Fund are suitably safeguarded;
- **Liabilities:** to maintain the on-going funding of the scheme at suitable levels;
- **Administration:** to ensure that members receive the benefits to which they are entitled;
- **Employers:** to minimise the risk to the Fund from admitted bodies;
- **Regulatory & compliance:** to ensure Fund governance is robust and all aspects of the operation of the scheme are in compliance with regulations and best practice;
- to ensure that appropriate financial and other scheme-related controls are appropriately considered; and
- to ensure, as far as practical, business continuity arrangements are robust.

## Assurance Framework Supporting The Annual Governance Statement April 2013

There are approximately 70 individual lines of risk, with 16 classified as the 'top risks' for the Fund. None has a critical rating. The highest noted risks are the following:

- **Legislative changes to the scheme in respect of the new 2014 scheme and auto-enrolment.**

Draft regulations were received in December 2012, although the detail surrounding the cost control mechanism, governance and transitional protections are not expected before April 2013. A project team has been appointed and a plan has been developed for implementation of the new scheme.

- **Quality of data from employers is poor:**

Risks are deemed to be increasing due to employers losing experienced staff, auto enrolment being introduced and the new LGPS from 2014. In order to mitigate these risks, regular engagement is undertaken with employers and a web portal has been developed, along with the initiation of a project to facilitate the electronic exchange of data.

- **Fully developed IT business continuity due to major changes at City Council:**

No experience of service failure, however WCC arrangements undergoing major change and development. WMPF internal BCC plan has been developed although this is largely dependent upon the IT infrastructure of WCC.

- **Support services provided by City Council, particularly IT and accounting:**

IT and support services are undergoing major changes and, therefore, associated risks are increased. Engagement on the service transformation is undertaken between Fund officers and WCC project leads, to ensure continuing needs are considered and met.

- **Third party service providers ability to meet required timescales to implement system changes ahead of auto enrolment and the new LGPS 2014:**

Contractual arrangements are reviewed and enhanced and regular monitoring is undertaken by members of the Fund project teams.

**2.2.3 Compliance Monitoring** - Regular reports submitted to Pensions Committee quarterly. No significant issues arose in last 12 months.


**2.2.4 Statutory policies** - operating practices etc. Significant statutory policies and Fund policy statements have been reviewed and will be submitted to the April 2013 Pensions Committee.

**2.2.5 Customer Service Excellence** - The Fund remains committed to CSE through the LEAN enhancement of processes and procedures.

**2.2.6 Staff Management** - A detailed staff competency framework (PRAISE) has been developed and rolled out across the pension service. It assists in ensuring that the Fund maintains competent, skilled and experienced staff to deliver the objectives agreed in the Fund's Business Plan 2011-2015 and meets future legislative changes.

**2.2.7 LEAN** - LEAN is a recognised process for reviewing key processes to ensure they operate as efficiently as possible and deliver effective outcomes. An approach, supported by West Midlands Excellence, has been developed and a medium-term plan developed for reviewing all of the Fund's key activities. Work during the last 12 months has identified efficiency gains and improvements in customer services.

**2.2.8 Key Priorities and Activities** - Key Fund priorities and activities identified in Medium-Term Business Plan 2011-2015 have been achieved with work on-going in respect of emerging priorities and activities (summary report attached).



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### 3. Annual Governance Statement

3.1 The assurance framework enabled the following statement to be given in support of the Council's overall annual governance statement:

With regard to the Fund's day-to-day management, this is carried out by teams of staff who are dedicated solely to the functions of pensions administration and pensions investment. Appropriate support and advice is provided by external investment managers and advisors. All teams report to a dedicated Director of Pensions.

The key elements of the Fund's internal control environment include:

- procedures for establishing and monitoring the achievement of the Fund's objectives;
- the facilitation of policy making and decision making;
- ensuring compliance with established policies, procedures, laws and regulations;
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Fund are exercised;
- the financial management of the Fund and the reporting of financial management; and
- the performance management of the Fund and the reporting of performance management.

### 4. Recommendations

4.1 Members are requested to note the background to the assurance framework and updated operational practices.

# Assurance Framework Supporting The Annual Governance Statement

April 2013

## Key Priorities and Activities

Activity	Benchmark Measurement	Target	Progress
<b>1. Maintain quality procedures and practices:</b>			
Maintain quality accreditations	Investors in People, Investors in Excellence and shortlisting for industry awards.	Re-accreditation	Maintained Customer Service Excellence following evaluation. ITA Fund shortlisted for 2 industry awards. LEAN Programme achievements recognised at the Investors in Excellence Awards. Continued use of PRAISE (staff appraisal scheme) to meet future requirements.
Invest in leading technologies	System reflecting current LGPS regulations and overriding legislative requirements	100% continuous	Achieved with only minor disruption. Management and maintenance on-going.
Respond to legislative changes	Legislative requirement.	Requirements met in timely fashion.	Implementation team appointed and plans for revised scheme from 2014 drawn up. Awaiting further technical details of Scheme
<b>2. Demonstrate 'value for money' in the Fund's operations:</b>			
Demonstrate quality of service delivery	Develop SLA's or service delivery statements	Key activities impacting on service issues	Developed and implemented a number of key performance indicators (KPIs) to ensure targets for service delivery, both internally and externally, which are reviewed, measured and reported on a timely basis.
Benchmark performance costs and service quality	Industry surveys and high performance	To be within, or close to best practice	CIPFA benchmark results for Administration 2011/2012 confirm Fund as close to best practice.  West Midlands Pension Fund costs £20.08 per member compared with £21.54 for other funds.  CLG 2012 analysis of LGPS costs reported to Committee. Costs per member: West Midlands Pension Fund £82.21 Metropolitan funds – £68.36 LGPS funds – £110.15



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## Key Priorities and Activities

Activity	Benchmark Measurement	Target	Progress
<b>3. Develop, implement and maintain customer engagement strategies:</b>			
Develop technical support for maintaining communication strategy with employing bodies	Availability of Fund website, portal and other leaflets or documentation which reflects current regulations.	100% availability of support and up-to-date information.	Achieved with only minor disruption. Management and maintenance on-going.
Develop communications with stakeholders and monitoring of pension provisions to individuals	Increase knowledge and understanding of LGPS and increase new active Scheme members.	Events, website, provision of documentation and information for members, employers and other interested parties.	<p>First Employer AGM held in December 2012, attended by representatives from 54 employers.</p> <p>Web portal available to employers and employees to access records, quotes and data.</p> <p>Retirement planning events held during the year, along with Roadshows held in June 2012 at the seven district sites across the West Midlands.</p>
Develop, consult upon and implement the Pensions Administration Strategy	All major employers have been consulted and design of framework for measurement has commenced	Agreed implementation date for performance measurement and reporting outcomes	<p>Engagement with 7 districts undertaken with wide understanding of the requirements.</p> <p>Dialogue on-going with respect to performance reporting.</p>
Hold Employer AGM Develop and implement customer engagement strategies	Enhance employer engagement, share information, knowledge and understanding of LGPS.	Wide attendance and positive feedback.	<p>Engagement with employers on the new LGPS 2014 was undertaken in July 2012.</p> <p>First Employer AGM held in December 2012, attended by 54 employers.</p> <p>Presentations made by Fund staff, Local Authority Pension Fund Forum, Local Government Association and the Fund's Actuary, Mercer.</p> <p>Feedback very positive and to be utilised in the planning of the next event.</p>
Develop and implement customer engagement strategies	Implement and react to outcomes of Customer Journey Mapping	Customer participation and feedback utilised to shape service future delivery	Project planned for implementation in 2013.

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## Key Priorities and Activities

Activity	Benchmark Measurement	Target	Progress
<b>4. Management of risk strategies:</b>			
Regular risk management reviews	Quarterly risk review	Action plan for all high level risks monitored and communicated to service.	Extensive risk register maintained. Major risks highlighted to service and monitored accordingly. Quarterly reviews undertaken by Senior Management.
Review of major changes and new activities	Annual risk review	Action plan for all high level risks monitored and communicated to service.	Annual full review and quarterly monitoring of risk register. Register available to internal and external audit. Quarterly compliance testing has produced no reportable issues. The investments and operations compliance functions have been integrated to provide a Fund-wide function from July 2012.
Develop and maintain risk management approach in order to give annual assurance statement	Bespoke Fund assurance statement.	Demonstrate full compliance.	Reported to Pension Committee, previous statement reported to April 2012 Pensions Committee. Latest statement reported April 2013.
Develop and implement Business Continuity Planning	Fully developed and tested business continuity plan	Continuous ability to transact Fund business.	Business continuity plan developed and prepared. Testing to be undertaken April 2013



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## Key Priorities and Activities

Activity	Benchmark Measurement	Target	Progress
<b>5. Deliver the agreed investment strategy:</b>			
Review, implement and monitor investment strategy	SIP/Asset allocation	100%	On-going. Hymans Robertson commenced as strategic investment advisor in January 2012.  Strategic Investment Allocation Benchmark (SIAB) 2012 implementation plan agreed.  Full review of the investment strategy and allocation underway.
Communicate and consult on progress	Committee reporting and documentation	Continued reporting and engagement	Regular progress reporting being made to Committee. Updated SIP will be presented to April 2013 Committee.
Develop appropriate changes for approval	Consultation, reporting and due diligence	No due diligence failures	No due diligence issues to report.  Traffic light/RAG monitoring of investment managers implemented.
Monitor and highlight opportunities with due regard to risk	Consultation, reporting and due diligence	Correct asset allocation is achieved.	Achieved, although variations around allocation are reported and accepted due to market volatility.
Explore, evaluate and consult on options to Sub-Committee and interested parties	Relevant investment opportunities reviewed.	100%	On-going – Investment Advisory Sub-Committee review and approve new asset classes or areas for investment
<b>6. Active management of Environmental, Social and Corporate Governance (ESG) issues:</b>			
Voting and engagement through partnerships	Policy statement	Meet policy objectives	Fund continues to vote at company meetings for the majority of its global holdings  PIRC to advise on corporate governance issues  Active member of the Local Authority Pension Fund Forum
Reviewing investment processes to encourage ESG	PRI Signatories	100% Participation	Threshold requirement for new manager appointments.  On-going monitoring and engagement with existing counterparties.

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**Key Priorities and Activities**

Activity	Benchmark Measurement	Target	Progress
<b>7. Triennial Actuarial Valuation:</b>			
Engage with employing bodies and discuss issues	Enhance employer engagement, share information, knowledge and understanding	Employers aware of data collection requirements	<p>Employer AGM included a detailed overview of the forthcoming valuation objectives, timetable and data requirements.</p> <p>Engagement undertaken with district and ITA Fund employers through Finance Directors Group.</p> <p>Individual planning visits undertaken by Fund staff.</p> <p>On-going requirement due to number and complexity of employers within the Fund.</p>
Collect data for valuation	Accurate and comprehensive valuation data available for Fund actuary.	Data supplied within required timescale	On-going. Review in progress of data requirements in order to cleanse existing data and to collect and collate appropriate data for the 2013 valuation.
On-going review of investment strategy in order to maintain SIP and FSS	Regulatory requirements	Comprehensive up-to-date	<p>Updated SIP to be presented to Pensions Committee April 2013</p> <p>A comprehensive review of the investment strategy and asset allocation is currently being undertaken with advice from Hymans Robertson.</p> <p>The SIP and FSS will be updated to reflect any changes resulting from this review, and from the outcomes of the 2013 actuarial valuation exercise.</p>
Regular monitoring of funding levels	Triennial valuation exercise and interim assessments	Overall current funding level	Interim valuation undertaken in autumn 2012 and results reported to stakeholders at AGM, meetings and Committee.

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**Key Priorities and Activities**

Activity	Benchmark Measurement	Target	Progress
<b>8.Trustee and Consultative Panel Training:</b>			
Maintain and expand the opportunities to build Trustee knowledge and understanding	CIPFA Skills and Knowledge Framework.	Minimum of 3 days provision to Committee members and 10 hours to JCP Members.	Structured induction training available to all Members  Formal training to Members took place during January & February 2013 with further training to be planned throughout 2013/2014.
Monitoring of approved training policy	Wide range of knowledge-building opportunities provided.	100% target achieved	Policy approved in November 2012.  2 days of structured training made available to all Members during Q1 2013.  Further activity will be reported to June Pensions Committee and detailed in Annual Report and Accounts.
Identification of training needs and development of training plan	Wide range of knowledge-building opportunities provided.	Training needs identified and addressed	On-going. Training needs analysis in progress and will be used to determine training plan for 2013/2014.
<b>Developing People:</b>			
Ensure a skilled and professional workforce	Staff are appropriately trained and staff resources effectively meet workflow requirements.	Continuous development for all staff.	Structured induction training is provided in-house for all new employees.  Structured training programme based on business needs and individual training requirements.
Identify and address training and development needs	Wide range of knowledge-building opportunities provided	Training needs identified and addressed through performance appraisals	Annual appraisals are undertaken by all Fund staff to determine competency levels and to identify training needs and objectives.
Measure and improve competency levels	Develop key targets to meet customer expectations and maintain quality standards.	Minimal error and rejection rates	Performance indicator monitoring and targeted competency training where needs identified.

# Assurance Framework Supporting The Annual Governance Statement April 2013

**Assurance:** The Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices when appropriate and has high customer service functions satisfaction.

**Objectives:** The bodies receiving assurance can be satisfied it is soundly based, is comprehensively updated and meets high professional standards.

