

Wolverhampton City Council

OPEN INFORMATION ITEM

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| Committee / Panel | <u>PENSIONS</u> | Date | <u>26/06/2013</u> |
| Originating Service Group(s) | <u>WEST MIDLANDS PENSION FUND</u> | | |
| Contact Officer(s)/ Telephone Number(s) | <u>GEIK DREVER</u> <u>2020</u> | <u>NADINE PERRINS</u> <u>2727</u> | |
| Title/Subject Matter | <u>NEW MEMBER UPDATE INFORMATION</u> | | |

RECOMMENDATIONS

All Members are requested to note the contents of the report.

WEST MIDLANDS PENSION FUND

1 PURPOSE OF THE REPORT

- 1.1 This report is an update for existing and all new Members to the Pensions Committee. It provides a brief outline to the West Midlands Pension Fund, the management arrangements and the special role of Members in respect of the discharge of the functions associated with the relevant pensions regulations and legislation.
- 1.2 The report details relevant information for all new members to the Pensions Committee and provides an update to existing Members alongside the clarification of future Trustee Training requirements.

2 BACKGROUND – ORIGINS OF THE FUND

- 2.1 Following the 1974 Local Government reorganisation, all Council employees in the region (excluding Teachers, Police and Fire Officers) became members of the West Midlands Superannuation Fund with the former County Council as administering authority. The 1986 reorganisation resulted in Wolverhampton City Council becoming the administering authority for the Fund and local government employee pensions other than those of Teachers, Police and Fire Officers in the West Midlands.

The responsibility for administering the Fund was delegated to the Pensions Committee which has representatives from the seven District Councils as the largest employers and four Trade Union representatives nominated from the Joint Consultative Panel of Trade Union for the West Midlands region. The changes in responsibility for the delivery of Council services has seen an increasing number of private sector organisations and more recently Academies, voluntary sector organisations becoming members of the Fund in respect of their workforces who deliver the outsourced functions.

- 2.2 The Fund has a dedicated website www.wmpfonline.com which provides more detailed information and Members are encouraged to identify any additional information that would be useful to them, and this will then be added to the website.

3 FUND DETAILS

- 3.1 The management of the Fund is divided between distinct functions which are Investment Management, Pensions Administration, Governance and Fund Accounting. These areas of responsibility fall within the Director of Pensions job role for whom administration and investment management arrangements are delegated to within approved policies. All investment transactions that are undertaken are reported to the next available Committee meeting.
- 3.2 The key statistics for the fund as at May 2013 are:-

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| Contributing (active) members | 97,860 |
| Deferred members | 86,579 |
| Members in receipt of a pension (pensioner & beneficiary pensioner) | 78,059 |
| Number of scheme employers | 360 |

4 INVESTMENT MANAGEMENT

The approach to investment of the Fund's resources is guided by investment strategy reviews at least every three years. However, following the turmoil in financial markets during 2008 a comprehensive review was undertaken in January 2009. The Authority has set the following objectives:-

- (a) Seek returns that are consistent and match those available in the major investment markets are comparable with other institutional investors.
- (b) Emphasise markets that over time are likely to give better returns.
- (c) Acknowledge the risk of investing and have regard to best practice in managing that risk.
- (d) Have resources available to meet the Fund's liabilities for pensions and other benefits provided.

- 4.1 The investment strategy is expressed in a medium-term asset allocation control benchmark. An asset allocation benchmark is simply the underlying medium to long-term strategic allocation of the assets of a Fund which aims to position the Fund to have a distribution of assets that over time is most likely to achieve its objectives. Limited shorter-term over and underweight positions are taken in order to take advantage of anticipated market movements' and against which the Fund's shorter-term performance can be assessed. Research has shown that asset allocation is the most significant factor in determining investment returns.
- 4.2 The Triennial actuarial valuation, undertaken by the Fund's Actuary, is important in setting the framework for determining a benchmark. It facilitates that balances of the various risks associated with the main asset classes against the need to match the Fund's projected liabilities over the medium to long-term.
- 4.3 The Fund's investment strategy will be reviewed in parallel with the actuarial valuation 2013. In January 2012, Committee appointed Hymans Robertson as advisors for the Strategic Investment Allocation Benchmark, which aims to conduct an annual review of Investment Strategy. The last review was carried out in July 2012. The Fund's position is clearly stated in the current Statement of Investment Principles (SIP), Funding Strategy Statement (FSS), Investment Strategy Statement (ISS), Compliance with Myners Principles and Socially Responsible Investment (SRI) Statement, which are available on the Web Site or from Officers. They contain useful information concerning the management of investments and follow recognised best practice.

5 **MEMBER SERVICES**

- 5.1 Benefit administration work is undertaken by the Pensions Administration function and includes:-
- Payment of pensions and the remittance of voluntary deductions to such organisations as the BHSF and Patients Aid.
 - Calculation and notification of retirement benefits.
 - Provision of information to new scheme joiners, rejoiners, deferred members, retirement options for new pensioners, estimates of future benefits, information for divorce purposes and details regarding increasing the annual pension.
 - Calculation, notification and payment of a member's transfer value out of the Fund.
 - Notification of service credit and updating a member's record following receipt of a transfer payment into the Fund.
 - Calculation and notification of benefits to early leavers eg deferred benefits and refund details.
 - Notification, calculation and payments of benefits on the death of a contributing member, deferred member and pensioner.
 - Issuing Annual Benefit statements to active members, deferred members, and pension credit members.
 - Customer Service help for all Scheme members and employers.
 - Technical support to employers including coaching sessions.
 - Recording, updating and accounting for employers and employees' contribution payments.
 - Daily, monthly and yearly finance functions including liaison with HMRC.
 - Preparing and issuing of Annual Reports and Accounts.
 - Admitting new employers into the scheme, eg academies and out-sourced bodies.

- Maintaining and updating of all members computerised records (eg change in hours or personal details).
 - Data validation of scheme member records and employer information.
 - Resolving complaints through the Internal Disputes procedure.
- 5.2 The Fund also has a website: - <http://www.wmpfonline.com> and has implemented a web portal for active and pensioner members as well as employers.

6 **AUDIT REQUIREMENTS**

- 6.1 The Fund's management arrangements and activities are subject to external audit procedures but due to the specialist nature of these requirements the auditors use people who have knowledge and experience of pension matters. The auditors produce a report for the Fund and to date we have received clean audit reports.

7 **GOVERNANCE OF THE FUND**

- 7.1 The Fund also has a framework called the Compliance Monitoring Programme which aims to ensure our practices are compliant with best practice and statutory requirements. This also provides an added assurance to Trustees.

A Formal governance statement was required by Regulation 73a of the Local Government Pension Scheme Regulations 1997, this can be found on the fund's website www.wmpfonline.com a summary of the provisions of the statement is shown below:

7.2 **Pensions Committee**

The management of the administration of benefits and strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The Committee administers the Scheme in accordance with the regulations and best practice, and determines the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

The roles of the members and the Committee are as follows:

- To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
- To put in place and monitor the arrangements for the administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits.
- To determine and review the provision of resources made available for the discharge of the function of administering authority.

The key duties in discharging this role are:

1. To monitor compliance with legislation and best practice.
2. To determine admission policy and agreements.
3. To monitor pension administration arrangements.
4. To determine investment policy based upon a medium-term benchmark and quarterly reviews agreeing a short term position relative to the benchmark.
 - a) Benchmark (medium-term)
 - b) Tactical (quarterly)
5. To monitor policy.
6. To appoint committee advisors.
7. To determine detailed management budgets.

The Council's delegation to Pensions Committee is as follows:

- a) To exercise the functions of the Council in relation to the administration of the West Midlands Metropolitan Authorities Pension Fund arising by virtue of the Local Government Pension Scheme Regulations 1997, and any subsequent related legislation.
- b) To exercise all the general powers and duties of the Council granted to cabinet teams and standing bodies provided that those parts of the Council's Financial Procedure Rules and Contracts Procedure Rules which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.
- c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.
- d) To ensure that consideration is given to the impact which the Committee's policies and provision of services have with regard to environmental matters.
- e) To determine, in consultation with the Cabinet arrangements for the revision and delivery of services within the terms of the best value framework.

7.3 **Investment Sub-Committee**

The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions. The Committee meet at least four times a year and its key duties are:

- i) To monitor and review investment management functions.
- ii) To review strategic investment opportunities.
- iii) To monitor and review portfolio structures.
- iv) To monitor implementation of investment policy.
- v) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisors to the Fund.
- vi) To monitor investment activity and the performance of the Fund.

The Director of Pensions implements the Committee policy and manages the day-to-day operational functions through Senior Officers and pensions staff. The Committee is advised and supported by the Chief Executive, Director of Pensions and Chief Legal Officer from Wolverhampton City Council.

8 **ROLE OF COUNCIL MEMBERS AS TRUSTEES**

- 8.1 When considering the advice and determining investment policy, Members are effectively acting as Trustees and as such need to understand the special obligations placed upon Trustees. These responsibilities are additional to those carried out as an elected Member of a Local authority. Members' duties as Trustees are to manage the Fund in accordance with the Regulations and to do so prudently and impartially on behalf of all the beneficiaries. This sometimes means that they may have to make decisions that in other political circumstances they may choose not to make. The overriding consideration for them as trustees, however, has to be for the benefit of the Fund and its contributors and beneficiaries. The advice of the Fund's advisers is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibility that go with them. They are not expected to be qualified to give investment advice or to initiate investment policy. They must be aware of what is proposed by their advisers and be sure that it is relevant to the needs of the Fund and within their powers.
- 8.2 In practice, Trustees typically discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with managers and advisers they employ. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings and regular written reports with professional advisers whose skills and judgements can be relied upon. So far as the Fund is concerned, the advice is provided mainly by Council Officers, CBRE, the independent adviser on property, Mercer Limited (the Funds Actuary) and Hymans Robertson, the investment consultants. "When the purpose of the Trust is to provide financial benefits for the beneficiaries, the best interests of the beneficiaries are normally their best

financial interests. In the case of power of investment, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question and the prospect of the yield of income and capital appreciation, both have to be considered in judging the return from the investment”.

8.3 **Standard required of a Trustee**

8.3.1 “The standard required of a Trustee in exercising his powers of investment is that he must take care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide”.

8.3.2 “That duty includes the duty to seek advice on matters which the Trustees do not understand, such as the making of investments, and on receiving that advice to act with the same degree of prudence. This requirement is not discharged merely by showing that the Trustee has acted in good faith and with sincerity. Honesty and sincerity are not the same as prudence and reasonableness. Accordingly, although a Trustee who takes advice on investments is not bound to accept and act upon the advice, unless in addition to being sincere he/she is acting as an ordinary prudent person would act”.

8.3.3 **Trade Union Representations and Provision of Information to Interested Parties**

The Fund invites relevant trade unions to send local representatives to a Joint Consultation Forum which meets at least three times per year to consider the activities of the Fund and elect four representatives one of which represents Retired Members to the Pensions Committee and three to the Investment Sub-Committee. Although these representatives, one of which is a retired member, do not have voting rights they are treated as equal members of the committees, for example they have access to all committee papers, officers, meetings and training as if they were Council members and have an opportunity to contribute to the decision making process.

8.4 **View of Secretary of State**

8.4.1 The Secretary of State for the Environment has previously indicated that administering authorities should pay due regard to the principle contained in ***Roberts v Hopwood*** in exercising their duties and powers under the regulations governing the investment and management of funds. In that case, Lord Atkinson said:-

“A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of others”.

9 **MEMBERS’ PERSONAL INVESTMENTS & CONFIDENTIALITY**

9.1 Members are not required, in the ordinary course of the work of the Pensions Committee and Investment Advisory Sub-Committee, to declare their personal investments, as they are not normally involved in specific direct investment management or in specific stock selection. However, it should be noted that the investment advice and any related information given to the Committee and Sub-Committee is appropriate for an institutional investor, rather than a private individual investor, and is confidential to the Committee and Sub-Committee.

9.2 The benefits awarded are determined by the Government by regulation and Members who are beneficiaries do not normally have to consider matters relating to benefits that could obviously directly affect them.

10 **ASSISTANCE AND MEMBER TRAINING**

- 10.1 Best practice emphasises the importance of Members receiving up-to-date appropriate assistance and training for them to discharge the duties of their specialist roles. The Fund has a Trustee Training Policy which all Trustees are encouraged to adhere to, to fulfil their responsibilities. Currently, training is provided through reports, the Funds website, a range of presentations (structured training, conferences and seminars) at various occasions throughout the year. In addition, professional advisors attend Investment Sub Committee and Member training events to offer external views on a variety of investment matters. The latter offers all Members the opportunity to develop a higher level of technical knowledge over a period of time.
- 10.2 Draft regulations on Governance as part of the new LGPS 2014 Scheme should be available in the Autumn. These regulations will include the role of the Scheme Advisory Board and local pensions Boards and will also detail the role of the Trustee.

11 **FINANCIAL IMPLICATIONS**

- 11.1 The report does not have direct financial implications.

12 **LEGAL IMPLICATIONS**

This report has legal implications as it deals with the role and responsibilities of elected members as trustees of the fund.

13 **ENVIRONMENTAL IMPLICATIONS**

- 13.1 The report contains no direct implications for the Authority's Environmental Policies.

14 **EQUAL OPPORTUNITIES IMPLICATIONS**

- 14.1 This report has no implications for the Council's equal opportunities policies.