

Pensions Committee

Minutes - 12 December 2018

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Harbans Bagri
Cllr Alan Butt
Cllr Jasbir Jaspal
Cllr Clare Simm
Cllr Paul Singh
Cllr Jane Stevenson
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell MBC)
Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull MBC)
Cllr Angela Underhill (Walsall MBC)
Malcolm Cantello (Trade Union Representatives)

Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Jill Davys	Assistant Director - Investments and Finance - West Midlands Pension Fund
Dereck Francis	Democratic Services Officer - City of Wolverhampton Council
Rachel Howe	Head of Governance and Corporate Services - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor – City of Wolverhampton Council
Michael Marshall	LGPS Central
Claire Nye	Director of Finance City of Wolverhampton Council
Amy Regler	Head of Operations - West Midlands Pension Fund
Holly Slater	Governance Officer - West Midlands Pension Fund

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence (if any)**
Apologies for absence were submitted on behalf of Councillor Stephen Simkins (City of Wolverhampton Council), Martin Clift, (Unite) (Trade Union representative) and Ian Smith (Unite Trade Union representative).
- 2 Notification of substitute members**
No notification of substitute members were received.

3 **Declarations of interests (if any)**

There were no declarations of interests.

4 **Minutes of the previous meeting - 5 September 2018**

Resolved:

1. That minute 1 (Apologies for absence) be corrected by the substitution of 'Unite' for the name 'GMB' where it appears in the second paragraph.
2. That subject to 1 above, the minutes of the meeting held on 5 September 2018 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to Minute 9, Rachel Brothwood, Director of Pensions reported that she had raised with the Local Government Association (LGA) the Committee's concerns at the impact on the Fund of benefit changes to the Local Government Pensions Scheme. As noted the committee would now formally put in writing the Fund's concern.

Malcolm Cantello (Unison) commented that he had heard that some pensions funds were drawing back from the Guaranteed Minimum Pension (GMP). The Director of Pensions reported that the Fund's Guaranteed Minimum Pension (GMP) reconciliation exercise was coming to the end of the second stage of member reconciliation, and all queries had been raised with HMRC by the deadline.

With reference to Minute 16 (West Midlands Integrated Transport Authority Pension Fund – Investment Strategy Review), the Director of Pensions reported that the West Midlands Combined Authority (WMCA) was undertaking due diligence in relation to the pension implications of transfer of governance of the West Midlands Fire and Rescue Service (WMFS) to the Mayoral WMCA. It was noted that some employees may transfer under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).

6 **GMB Nomination to Pensions Committee**

The Committee was asked to approve the nomination received from the Branch Secretary of the GMB Trade Union, B01 branch for Janice Wadrup to fill the GMB observer vacancy on the Committee following the mid-year resignation of Alan Phillips.

Resolved:

That the nomination from GMB Trade Union of Janice Wadrup to join Pensions Committee be approved.

7 **Quarterly Investment Report to 30 September 2018**

Jill Davys, Assistant Director – Investments and Finance presented the report on a range of investment issues, primarily the economic and investment background, the Fund's responsible investment activities, and the quarterly performance of both the West Midlands Pension Fund and the West Midlands Integrated Transport Authority.

Councillor Angela Sandison asked, with the FTSE index and global markets on a downward trend and talk of a possible recession, should the Fund hold its investments in equities. The Assistant Director reported that there were a whole range of issues affecting performance in the markets at this time. During the year the Fund had taken £1 billion out of equities which had reduced its allocation in that

asset class to align with the strategic investment allocation benchmark. The Fund was also looking for opportunities to invest more into income and specific asset classes here there was deemed to be good return potential, noting this was a regular point of discussion for the Investment Advisory panel. The Fund would continue to monitor movement in the markets as we approach year end.

Referring to LGPS Central's appointment of three equity managers for the external equity ACS sub fund, Malcolm Cantello (Unison) asked whether the managers were being asked to sign up to follow the Transparency Code. The Assistant Director reported that sign-up to the Transparency Code had been a condition of appointment on tender.

Malcolm Cantello (Unison) acknowledged that there were plans in the pipeline for the Fund's cash balances but that levels of cash balances seemed high. He asked how long term the Fund should leave cash on deposit. The Assistant Director reported that it was not intended to have cash on deposit for any length of time. The reason for current levels was to reduce exposure to equities whilst waiting to put into more illiquid assets.

Resolved:

1. That the global economic and market update paper prepared by the fund's adviser, Hymans Robertson be noted.
2. That the update on Investment Pooling be noted.
3. That the Quarterly Performance Reporting for the West Midlands Pension Fund be noted.
4. That the Quarterly Performance Reporting for the West Midlands Integrated Transport Authority be noted.

8

Responsible Investment

Rachel Brothwood, Director of Pensions took the Committee through the report on the work undertaken by the Fund in relation to responsible investment since the last meeting. Michael Marshall, LGPS Central Director of Responsible Investment also presented an update on LGPS Central's voting and engagement activity since the last meeting.

Malcolm Cantello (Unison) asked whether there was any recent update from the United Nations Climate Change Conference in Poland during 3 to 14 December 2018 particularly in relation to the Climate Change Charter. Michael Marshall reported that it was too early to tell the impact of the Conference, but it would be reviewed.

Councillor Angela Sandison commented that the Fund's duty was to obtain the best returns from its investments to pay pensions. The Fund needed to strike a balance in what it says to companies and getting the best returns for its members.

The Chair asked if there was scope in the 'proposed beliefs about climate change and its potential impact on the West Midlands Pension Fund' to state the Fund should look at itself as well. In response to comments made by the Committee, the Director of Pensions reported that responsible employers were often a key feature of investment due diligence and being a responsible employer was one of the Fund's core objectives. On the point made about obtaining the best return from its

investments to pay pensions, she agreed that there were assets that the Fund could invest in that would help navigate some of the financial risks of climate change. The Fund were considering which metrics could be developed and whether any adjustments to the Fund's portfolio were required to manage this risk as it evolves over time.

Councillor John Mutton commented on an issue that had been raised with him directly regarding Fund investments involving the arms trade. The Chair requested that officers review the correspondence provided from Councillor Mutton and provide an update to the committee at its next meeting in March.

Resolved:

1. That the Fund's voting and LAPFF's engagement activity for the three months ending 30 September 2018, including Appendix A be noted.
2. That the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website be noted:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
3. The issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website be noted:
<https://www.lgpscentral.co.uk/responsible-investment/>
4. That other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment be noted.
5. That correspondence received during the period and the Fund's response be noted.
6. That the proposed beliefs about climate change and its potential impact on the Fund, from which a Climate Change Strategy and Framework would be developed be noted.
7. That it be noted that the Fund is signatory to the 2018 Global Investor Statement to Governments on Climate change.

9 **Budget Monitoring 2018/19 and Quarterly Accounts September 2018**
Jill Davys, Assistant Director Investment and Finance presented the key points from the update report on the forecast outturn for the year against operating budgets and quarterly accounts as at the end of September 2018.

A query was raised in relation to the lower level of income to the Fund in 2018/19. Rachel Brothwood, Director of Pensions confirmed that professional fees and income were both shown net of costs and recharge to employers for pension accounting disclosures.

Malcolm Cantello (Unison) asked in future that the report include the transition costs for LGPS Central over a period of time. The Assistant Director reported that new templates and annual report guidance from the Chartered Institute for Public Finance and Accountancy (CIPFA) would require all Funds to show the investment costs, including those incurred by pooling. The Fund would be working with LGPS Central

to develop reporting for the assets in the pool and officers continue to develop reporting for assets held by the Fund.

The Chair agreed that the Fund should monitor its contribution to the costs of LGPS Central. He also reported that 0.42% (the Fund's investment management costs as a percentage of forecast net assets) was a modest amount given the return the Fund receives. Acknowledging the increase in work for the Fund due to increasing complexity in scheme rules and the Fund's growing employer and member base the Chair stated that the Fund needed to be able to respond to those increasing demands through adequate staffing resource and service developments.

Resolved:

1. That the quarterly accounts for the period ending 30 September 2018 be noted which show that:
 - the value of West Midlands Pension Fund at this date was £16.1 billion, an increase of £713.5 million from 31 March 2018.
 - the value of West Midlands Integrated Transport Authority Pension Fund at this date was £500 million, an increase of £8 million from 31 March 2018.
2. That it be noted that West Midlands Pension Fund outturn against operating budgets as at the end of September 2018 is an underspend of £4 million primarily attributable to lower investment management costs.

10

Accounting Policies 2018/19

Jill Davys, Assistant Director Investment and Finance presented the report and asked the Committee to endorse the accounting policies to be used in preparing the Funds' accounts for the 2018/19 financial year. The policies had been updated to take on board the latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Resolved:

That the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund Accounting Policies for the 2018/19 financial year be endorsed.

11

Service Development Report

Rachel Howe, Head of Governance and Corporate Services highlighted the key points from the update report on the Fund's delivery of the Service Plan, associated service development programmes and emerging themes that the Fund would need to prepare for and navigate to ensure it remains effective in the delivery of a high-quality service to our members and employers.

The Chair placed on record his thanks to the Fund's employees for their work on the service developments detailed in the report, particularly but not exclusively the awards and accreditations the Fund had received; the web portal and the workforce development strategy progress with the development of the Fund's graduate and trainee programme. He also thanked members of the Committee for their commitment to the Trustee training programme and asked for their continued commitment to their training.

Resolved:

1. That the Fund's delivery of its Service Plan 2018 – 2023 priorities be noted.
2. That the recent awards and accreditations at the Fund be noted.
3. That the update on the workforce development strategy be noted.
4. That the update on the Fund's digital transformation programme be noted.
5. That forthcoming challenges and opportunities be noted.

12

Governance Update September to December 2018

Rachel Howe, Head of Governance and Corporate Services presented the report on an update of the work of the Fund in delivering a well governed scheme through the management of effective internal controls and a performance monitoring framework.

Malcolm Cantello (Unison) commented on the performance for the production of benefit statements, quotations and quarterly accounts. He also reported that the extra work involved in processing the increase in cases during the reporting period as a result of government regulatory changes, and delays in processing cases as a result of factors external to the Fund; which all added to the Fund's costs and this point did not seem to be recognised by government. The Director of Pensions confirmed that concerns noted by the Pensions Committee would be raised in the letter to LGA.

Resolved:

1. That the Fund's ongoing review of the policy on Termination for Employers and Funding Strategy Statement following the recent change in legislation be noted.
2. That the Fund's risk register and the mitigations in place to manage risk at the Fund
3. That the Fund's Key Performance Indicators be noted
4. That the monitoring of and actions taken to manage potential and actual breaches of the law be noted
5. That the initial outcomes of the AON governance and administration review be noted
6. That the total number of training hours of the Fund's Trustee and Pension Board members year to date be noted.
7. That the completion of the Pension Regulators scheme return be noted
8. That the progress in delivering benefit statements to members be noted.

13

GDPR Audit Review

Rachel Howe, Head of Governance and Corporate Services presented the update report on the work of the Fund to prepare and comply with the changes to Data Protection Law that came into effect in the UK on 25 May 2018. The report also

sought to provide assurance as to the completion of that work by the Fund through internal and external audit exercises.

Referring to the Internal Audit Report on the GDPR Review, Malcolm Cantello (Unison) asked if there was a target date for Civica, the Fund's system provider, to sign a data sharing agreement and whether there was now an agreement in place. That Head of Governance and Corporate Services confirmed that the Fund now had the updated data sharing agreement with Civica.

Resolved:

That the Fund's compliance with the requirements of the General Data Protection Regulations and Data Protection Act 2018 as confirmed in the internal and external audit reviews commissioned by the Fund's Data Protection Officer be noted.

14 Pensions Administration Report from 1 July to 30 September 2018

Amy Regler, Head of Operations presented the report on work undertaken by the pensions administration service during 1 July to 30 September 2018 for both the Main Fund and the West Midlands Integrated Transport Authority (WMITA) Fund. She particularly highlighted from the report a 27 % increase in administrative processes compared to the previous reporting period; the change to the SCAPE discount rate (underpinning a number of scheme benefit calculations including internal and external transfers); and the increase in requests for deferred retirements quotes.

Malcolm Cantello (Unison) queried the figures in the table on membership movement for the Main Fund given the reduction in the number of active members. Rachel Brothwood, Director of Pensions undertook to report back to clarify the numbers.

Resolved:

1. That the write—offs detailed in section 9.0 of the report be approved.
2. That the applications approved by the Director of Pensions and the Chair or Vice-Chair of Pensions Committee for admission to the West Midlands Pension Fund be noted.
3. That the pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund), in particular the increasing work volumes.

15 Customer Engagement Update

Rachel Howe, Head of Governance and Corporate Services presented the report on an update of the Fund's customer engagement activity from 1 July to 30 September 2018, in line with its Customer Engagement Strategy. She particularly highlighted the increase in demand for face-to-face presentations from members and employers; registration on the new member pensions portal exceeding KPI target; the development and continued growth of the employer coaching programme; upcoming activities; and initial feedback from the Fund's employer Annual General Meeting on 13 November 2018.

Resolved:

That the engagement activity and informed service development be noted.

16 **Employer Roadmap/ Performance Update**

Amy Regler, Head of Operations presented the update report on the Fund's engagement activity with respect to employer performance from 1 July to 30 September 2018, in line with the Pension Administration Strategy. By way of update she reported that to date the percentage of the Fund's total employer base who had all submitted all monthly files required for 2018/2019 had increased from 80% to 93%. Weekly engagement was taking place with the remaining 7% of employers who had either submitted some files or none at all. Rachel Brothwood, Director of Pensions added that as part of the roadmap developed alongside the Pensions Administration Strategy (PAS) the Fund had an agreed process for managing employer compliance with the requirements set out in the PAS. The Fund would look to follow the escalation process contained therein with the remaining 7% of employers.

Malcolm Cantello (Unison) asked whether the incomplete data was linked to inaccurate contributions from employers. Rachel Howe, Head of Governance and Corporate Services reported that the report referred to member data with financial data and contributions monitored separately.

Jill Davys, Assistant Director Investments and Finance added that from a Finance perspective additional monitoring had been put in place to enable the Fund to assess the timely and accuracy of payment of contributions on a monthly basis. When the Fund does not receive the information from employers it would not produce their accountancy report. Individual employer financial statements were being developed for feedback to employers from 2019/2020.

Resolved:

That the update on employer performance covered in the report be noted.

17 **Exclusion of the Public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business as it involves the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act

Part 2 - exempt items, closed to press and public

18 **Investment Strategy and Activity Update**

Jill Davys, Assistant Director – Investments and Finance outlined the salient points from the update on investment strategy and activity in the Main Fund and the West Midlands Integrated Transport Authority Fund's investment strategy over the last quarter; together with an update on the product development plan and launches of LGPS Central Ltd sub-funds and arrangements for the Fund to transition assets.

Councillor Angela Sandison commented that the figures for Fund membership was static, but the deferred and pensioner membership continued to rise. This would need to be taken into consideration when developing the Fund's investment strategy. She asked how this would impact on funding levels for employers in the future. The Assistant Director reported that this had been recognised in the Strategic Investment Benchmark. As the Fund goes into the next actuarial valuation process, investment

strategy and asset allocation would be reviewed alongside employer contribution rates.

Rachel Brothwood, Director of Pensions added that during the last Investment Strategy Review the Fund looked at the projections for its income requirements. Over the next five years the outlook looked reasonable. After five years the Fund would need to look at the position again and it was likely income generating assets would need to be increased in future. In terms of potential impacts on employer requirements from the increasing deferred and pensioner membership, it would differ dependant on the nature of the employer.

Resolved:

1. That the delegation to the Director of Pensions and Assistant Director, Investments and Finance to agree the arrangements for the transition of Fund assets to LGPS Central Ltd Emerging Market Equity ACS sub-fund as appropriate be confirmed.
2. That the delegation to the Director of Pensions and Assistant Director, Investments and Finance to agree the arrangements for the transition of Fund assets to LGPS Central Ltd Corporate Bond ACS sub-fund as appropriate be confirmed.
3. That the update on investment strategies for the main Pension Fund and the WMITA Fund be noted.
4. That the highlights of recent activity within the Pension Fund be noted.
5. That the Fund's proposals to rationalise the private equity portfolio be noted.
6. That progress on the development of the sustainable equities mandate be noted.

19 **Employer Covenant Update**

Rachel Brothwood, Director of Pensions presented the update on the review of the in-house monitoring framework for assessing the covenant strength of all participating employers and on the individual cases arising from the ongoing monitoring process.

Resolved:

1. That the revised employer watchlist, to take into account 2017/2018 financial information be noted.
2. That the updated position for the Further Education sector be noted.

20 **Preparations for 2019 Actuarial Valuation**

Rachel Brothwood, Director of Pensions outlined the salient points from the report on an overview of the preparations for the 2019 actuarial valuation process, in preparation for the review of funding strategy and employer contribution rates.

Resolved:

That the report and the associated preparatory work and planning for the 2019 actuarial valuation of both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund).

21

Procurement

Amy Regler, Head of Operations presented the report on an upcoming programme of work to procure key professional services and advisors, which include Covenant Advisors, Risk and Investment Advisors, Hybrid Mail provider, and the appointment of investment managers (together with a transition manager) to deliver the Fund's Sustainable Global Equity Mandate. The Committee was invited to appoint members to participate in a working group to assist with the selection of investment consultants from the National LGPS Framework.

In response to questions from the Committee, the Head of Operations reported that the Fund was in the process of working out the efficiencies it would wish to achieve through a Hybrid Mail provider. She also reported on the engagement thus far in terms of testing the market for potential providers. Rachel Brothwood, Director of Pensions confirmed that whilst the processing change would create some capacity for staff to do other things, risk management was the key benefit from the proposal. Rachel Howe, Head of Governance and Corporate Services reported that, if the contract for the Fund's printing and mailing functions is outsourced, the Fund would ensure that the provider was compliant with General Data Protection Regulation (GDPR)

Resolved:

1. That the following members of Committee be nominated to participate in the working group being held to assist with the selection of investment consultants from the National LGPS Framework.

Councillors Ian Brookfield
Councillor Keith Inston
Councillor Angela Underhill
Councillor Jane Stevenson
Malcolm Cantello (Unison)

2. That approval regarding the final selection of suppliers be delegated to the Director of Pensions in consultation with the Chair of Pensions Committee.
3. That the programme of procurement activities currently being undertaken by the Fund, which would see the appointment of a number of key providers and advisers be noted.

22

West Midlands Integrated Transport Authority Fund

Rachel Brothwood, Director of Pensions presented the update report on considerations in relation to the potential merger of the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) and the West Midlands Pension Fund (WMPF), in response to the Government Actuary's (GAD's) recommendation to MHCLG, that the Administering Authority develop a plan to address the employer-risk inherent within the closed WMITA PF.

In response to questions from the Committee, it was confirmed that the options considered would be developed in consideration of the best overall position for the employers, the members and in consideration of potential efficiencies in process and administration.

Resolved:

1. That the publication of the Government Actuary Department (GAD) Section 13 report be noted.
2. That the approval in principle from the West Midlands Combined Authority (WMCA), to merge the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) with the West Midlands Pension Fund be noted
3. That ongoing dialogue with the Ministry of Housing Communities and Local Government (MHCLG) and GAD, and further legal due diligence work being undertaken to develop a proposal for wider consultation be noted