

Pensions Board

2 July 2019

Report title	Governance Update Report	
Originating service	Pension Services	
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Recommendations for noting:

The Board is asked to note:

1. The Scheme Advisory Board's annual report for 2018.
2. The Risk Register and the movement and management of risks across the Fund.
3. Items being monitored through the Fund's compliance monitoring programme.
4. Publication of findings from the Pensions Regulator's engagement with LGPS funds is due over the Summer.

1.0 Purpose

- 1.1 To provide the Local Pensions Board with an update of the work of the Fund in delivering good governance in line with the Pension Regulator's code of practice and in meeting the expectation of the Scheme Advisory Board.

2.0 Local Pensions Board Terms of Reference

- 2.1 The West Midlands Pension Fund believes a well governed scheme is led from the top, by its governing bodies and decision makers. To support the members of those bodies in their roles, equipping them with the knowledge and understanding of relevant issues, the Fund has adopted a formal training policy which details the minimum requirements expected of Pension Committee and the Local Pensions Board to support and enable policy decision and oversight of implementation, where delegated.
- 2.2 Local Pension Boards have a statutory duty to complete 22 hours training, and to support the Board achieve this target, the Fund complies with the expectations of the CIPFA knowledge and skills framework and builds its formal training programme around those topics highlighted as being of relevance to Local Government Pension Scheme decision making bodies.
- 2.3 The Fund reviews its training policy each year to ensure it remains compliant with best practice and delivers a comprehensive suite of opportunities for the Committee and Local Pensions Board to develop knowledge and understanding.
- 2.4 This year, the Fund has reviewed the policy and considered the experience (in terms of years involved in the Fund or similar pensions governing bodies) of each member. The policy has been reviewed to reflect the variable experience of our Pension Committee and Local Pension Board with a view to developing a programme that supports both an introductory and progressive knowledge base.
- 2.5 In addition to the training policy, the Fund is required to publish a member conduct review policy outlining how the Fund will manage and respond to complaints about members of its governing bodies. Following the Board's approval of the conflicts of interest policy at its April meeting, the member conduct review policy has been amended to reference conflicts of interest under this new separate policy. All other aspects of the conduct review policy remain the same.
- 2.6 The Pensions Committee approved the training policy at its June meeting and a copy is appended to this report at Appendix A. A copy of the conduct review policy is published on the fund's website.

3.0 National Scheme Advisory Board Update

- 3.1 In line with its Regulatory duty, the national Scheme Advisory Board (SAB) every year produces its Scheme Annual Report highlighting national averages in areas such as investment returns, asset allocation, funding and governance.

3.2 The SAB produces its report based on published annual report and accounts of all LGPS Funds across England and Wales. It is therefore produced retrospectively each year. This latest report highlights the average position from the 2018 reports, and is a useful point of reference for a variety of stakeholders.

3.3 Key LGPS Highlights for 2018 as noted by the SAB include:

- The total membership of the LGPS grew by 197,000 (3.4%) to 5.8m members in 2018 from 5.6m in 2017.
- The total membership of employers increased from 14,019 in 2017 to 14,785 in 2018, an increase of just under 5.5%.
- The total assets of the LGPS increased to £275bn (a change of 5%). These assets were invested in pooled investment vehicles (54%), public equities (29%), bonds (7%), direct property (3%), as well as other asset classes (7%).
- The Local Authority return on investment over 2017/2018 was 4.4%. This was reflective of the volatile market conditions during the year.
- The scheme maintained a positive cash-flow position overall. Scheme income was higher than total scheme outgoings by £500m; this is including investment income.
- Over 1.7m pensioners were paid over the year, a 6.3% increase from 2017.

3.4 In comparison, West Midlands Pension Fund's (Main Fund) highlights for the year to 31 March 2018 show:

- The total membership grew from 302,902 to 313,399 (3.5%)
- Employers increased from 605 to 623 (2.98%)
- The Fund's total assets increased from £14.2billion to £15.2 billion (7%)
- The total number of pensioners paid during the year was 91,741 an increase of 4.28% from 2017.

3.5 For the West Midlands Integrated Transport Authority Pension Fund it is difficult to use the average as a comparator due to the closed status of the Fund and it having only 2 employers. The majority of those members are in receipt of their pension benefits with just over half being supported by the purchase of an annuity buy-in contract held in the name of the Fund.

3.6 Throughout the year the Scheme Advisory Board has issued a number of communications reporting on the outcomes of their meetings and delivery of their own workplan all of which have been presented to the Local Board and Committee in update reports to formal meetings and through the Fund's media roundup communication. Copies of all SAB meeting papers are available on their website www.lgpsboard.org.uk

4.0 Risk Register

4.1 The Fund's risk register has been compiled to represent all known and perceived risks across all Service Areas of the Fund. Each quarter the Fund's compliance team, in conjunction with Senior Managers and Risk Owners review the key risks which are drawn from detailed risk registers separately maintained for each service area of the Fund. The

risk register is an active document that is regularly monitored to ensure it reflects the most recent activity of the Fund and is looked upon as both a reactive and proactive document to ensure emerging risks are identified quickly and action taken to address, as required.

- 4.2 The Fund's full risk register contains 56 Risks, of which 14 are rated as Red and noted as Key Risks. 41 Risks are rated as Amber and 1 rated as Green. In assessing risks, the Fund undertakes a 5 x 5 matrix assessment as follows

Impact	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Probability				

- 4.3 Since conducting the end of year review, the Fund has not identified any further movement in the risks. At the quarter end (March 2019) one risk area had increased in relation to the potential change in committee and local pension board membership. This is a precautionary assessment due to the cycle of elections held each year. This will be reviewed this quarter following confirmation of changes in membership and completion of the Fund's induction training.
- 4.4 Further to the review, the key risks register is attached at Appendix B providing assurance to Committee of the controls in place to protect the Fund.

5.0 Policy Review Update

- 5.1 In line with the Fund's annual policy review framework, the Fund has completed its annual review of policies to ensure they meet both statutory and best practice requirements.
- 5.2 Of note this year, the Fund has adopted a new Climate Change Risk Management Framework, as part of its annual review of the Investment Strategy Statement (approved by Committee in March), acknowledging the potential risk climate change has to the Fund's investments over the long term, outlining the proposals to manage this through appropriate investment strategy.
- 5.3 All statutory policies will be published in the Fund's Annual report and Accounts due to be published in September.

6.0 Compliance Monitoring

6.1 Finance and Investments

Late Trades

The Fund continues to monitor late and failed trades. Late trades relate to instructions on stocks which were not executed at the time requested but executed at a later period with no detriment to the Fund. A failed trade is where the execution on stocks was not actioned.

The number of late trades for the period January to March was 7, this was an improvement on the previous quarter's late trades of 8. None of these late trades resulted in detriment to the fund.

The number of failed trades for this period was 22, this was a reduction on the previous quarters failed trades of 27. None of the failed trades resulted in detriment to the fund.

Contributions

The Finance team continue to engage with employers to ensure contributions are received monthly in line with TPR guidelines. The procedures for monthly reconciliation of contributions continue to develop and embed within the employer monthly return process.

For the testing sample of March, the Fund had 56 out of 670 employer contributions (£282,628 in value) received late. Finance and employer services continue to work with the employers with a shortfall in employer contribution payment. Ongoing monitoring is in place to identify any outstanding or repeat cases of late payments.

6.2 Governance and Operations

Freedom of Information (FOI) requests

This quarter the Fund has received 5 FOI requests mainly regarding the Fund's investment performance. Requests of this nature are becoming more frequent and to assist in the Fund's management of these queries, the Fund has decided to publish more detailed investment information on a quarterly basis via the website.

Data Breaches

This quarter the Fund has recorded 15 data breaches, all of which have been reported to the City of Wolverhampton Council's Information Governance team. All breaches related to the disclosure of information to unintended recipients. The Fund continues to identify improvements to working practice where required, which includes the implementation of a hybrid mail printing solution, which will shortly be introduced. None of the breaches were required to be reported to the Information Commissioner.

7.0 Engagement with the Pensions Regulator

- 7.1 Since taking on responsibility for Public Sector Pension Schemes in 2014, the Pensions Regulator launched its corporate plan in 2018 which included a programme of engagement and learning for the Public Sector Pension Schemes it now regulates, with a focus on the LGPS.
- 7.2 To facilitate development of its understanding of the LGPS, the Regulator chose 10 LGPS Funds with whom they would undertake a deeper engagement programme to further their learning of the governance, administration and management in practice following the issuance of the Code of Practice 14.
- 7.3 West Midlands Pension Fund was once such fund the Regulator engaged with, holding 6 structured meetings to discuss the Fund's approach to complying with its statutory Code of Practice. Over the course of 4 months, Senior Managers from the Fund engaged with officers from the Regulator, providing examples of governance and administration practices in place to support compliance with the Code of Practice evidenced through adopted policies, the risk register, cyber and fraud risk management, as well as providing evidence of the Fund's Committee and Local Pension Board training programme.
- 7.4 That programme concluded in March and the Fund recently received correspondence from the Regulator thanking officers for their engagement and noting the mutual benefit from the close proactive working. The Regulator was keen to stress that West Midlands had not been chosen out of any concern for how we are managed and governed and noted the variety of good practice approaches the Fund has taken to implement their guidance on scheme governance and administration.
- 7.5 The Regulator continues to engage with a number of LGPS Funds and is due to publish a report of their engagement in the Summer. This is expected to cover areas of good practice on a no-names basis.

8.0 Financial implications

- 8.1 The Fund has accounted for Regulatory change as part of its Service Development Budget, there are therefore no implications to the Fund's budget.

9.0 Legal implications

- 9.1 Changes to legislation and statutory guidance are detailed in the report. Failure by the Fund to comply with legislation and/or statutory guidance can result in enforcement action and a fine from both the Pension Regulator and the Courts via judicial review.

10.0 Equalities implications

- 10.1 There are currently no equalities implications contained within this report, an equality impact assessment will be undertaken where new policies are adopted following change in regulation/statutory guidance.

11.0 Environmental implications

- 11.1 The Fund's Climate Risk Strategy and Framework has been published in consideration of the potential impact of climate change risks on the funding and investment strategy. Details are contained within the Framework itself.

12.0 Human resources implications

- 12.1 There are no implications

13.0 Corporate landlord implications

- 13.1 There are no implications

14.0 Schedule of background papers

- 14.1 Public Service Pensions Act 2013
<https://www.legislation.gov.uk/ukpga/2013/25/contents>
- 14.2 The Pension Regulator's Corporate Plan 2019 – 2022
<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/corporate-plan-2019-2022.ashx>
- 14.3 LGPS Scheme Advisory Report 2018
<http://lgpsboard.org/index.php/2018-foreword>
- 14.4 Pension Regulator's Code of Practice for Public Sector Pensions Schemes
<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice>
- 14.5 West Midlands Pension Fund Investment Strategy Statement 2019
<http://www.wmpfonline.com/CHttpHandler.ashx?id=16022&p=0>
- 14.6 West Midlands Pension Fund Climate Change Framework and Strategy 2019
<http://www.wmpfonline.com/CHttpHandler.ashx?id=17543&p=0>
- 14.7 West Midlands Pension Fund Member Conduct Review Policy
<http://www.wmpfonline.com/article/6810/West-Midlands-Pension-Fund-Policy-for-Dealing-With-Complaints-About-Pensions-Board-Members>

15.0 Schedule of Appendices

- 15.1 Appendix A: Pensions Committee and Local Pensions Board Training Policy 2019
- 15.2 Appendix B: Risk Register