

**Wolverhampton City Council****OPEN INFORMATION ITEM**

Committee / Panel	<b>PENSIONS</b>	Date	<b>20 JUNE 2012</b>
Originating Service Group(s)	<b>WEST MIDLANDS PENSION FUND</b>		
Contact Officer(s)/ Telephone Number(s)	<b>GEIK DREVER 2020</b>	<b>NADINE PERRINS 2727</b>	
Title/Subject Matter	<b><u>NEW MEMBER INFORMATION</u></b>		

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**PURPOSE OF THE REPORT**

This report is submitted for existing and new Members information. 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.

This report is also designed to assist new Members to the Committee and update existing Members by clarifying future training requirements.

**RECOMMENDATIONS**

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



# New Member Information

20 June 2012

WEST MIDLANDS



PENSION FUND

## New Member Information

### 1. Background – Origins Of The Fund

**1.1** 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, voluntary sector organisations, and more recently, academies, becoming members of the Fund in respect of their workforces who deliver the outsourced functions.

**1.2** The Fund has a dedicated website [wmpfonline.com](http://wmpfonline.com) which provides more detailed information. Members are encouraged to identify any additional information that would be useful to them which will then be added to the website.

### 2. Fund Details

**2.1** The management of the Fund is divided between distinct functions: Investments, Member Services, Communications and 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.

**2.3** The key statistics for the fund as at April 2012 are:

Contributing (active) members	95,143
Deferred members	76,799
Members in receipt of a pension (pensioner & beneficiary pensioner)	75,332
Preserved refund members	8,055
Number of scheme employers	In excess of 270

### 3. Investment Management

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

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

**3.1** 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.

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**3.2** The actuary's three-yearly actuarial valuation 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.

**3.3** The revised investment strategy following the last actuarial review was agreed by the Pensions Committee during 2007 and this was updated in January 2009. In January 2012, the Committee appointed Hymans Robertson as advisers for the 'Strategic Investment Allocation Benchmark', which aims to conduct an annual review of the investment strategy. However, it should be noted that the Fund's investment strategy is currently under review and a report by the Director of Pensions will outline progress. 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 website or from officers. They contain useful information concerning the management of investments and follow recognised best practice.

### 4. Member Services

**4.1** Benefit administration work is undertaken by the Member Services function and these include:

- Payment of pensions and ancillary activities (eg, liaison with the HMRC (Inland Revenue) and the remittance of voluntary deductions to such organisations as the BHSF and Patients Aid)
- Provision of information and printed materials (eg, explanation of the Scheme to new joiners, rejoiners, early leavers' options, estimates of future benefits and information packs for new pensioners).
- Recording and maintain records of employers' and employees' contributions.
- Calculation and notification of retirement benefits.

- Statutory annual benefits statements to contributing members and deferred members.
- Preparing and issuing an annual report and accounts.
- Customer Service (first-call resolution) helpline for all Scheme members.
- Maintaining and updating contributors, deferred beneficiaries and pensioners' computerised records (eg, change in hours or personal details).
- Provision of technical support to employers including an employer helpline.
- Day-to-day and year-end finance function.
- Quality data validation of Scheme member records and employer information.
- Notification, calculation and payment of benefits on the death of a member.
- Calculation, notification and payment of a member's transfer value out of the Fund.
- Calculation, notification and updating a member's record following receipt of a transfer payment.
- Admitting new employers into the Scheme (eg, academies and outsourced bodies).
- Resolving complaints under the internal dispute procedure.

**4.2** The Fund also has a website [wmpfonline.com](http://wmpfonline.com) and will shortly be implementing a web portal for active and pensioner members.

### 5. Audit Requirements

**5.1** 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 satisfactory audit reports.

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### 6. Governance of the Fund

A formal governance statement is required by Regulation 73a of the Local Government Pension Scheme Regulations 1997. This can be found on the Fund's website at [www.wmpfonline.com](http://www.wmpfonline.com)

A summary of the provisions of the statement is shown below:

#### 6.1 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 as follows:

- 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 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.

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- 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.

### 6.2 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 as follows:

- 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 administration staff. The Committee and members are advised and supported by the Chief Executive, Director of Pensions and Chief Legal Officer from Wolverhampton City Council.

## 7. Role of Council Members as Trustees

**7.1** 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.

**7.2** 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, Hermes, Mercer Limited (the Fund's 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."

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### 7.3 Standard Required of a Trustee

7.3.1 "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."

7.3.2 "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."

### 7.3.3 Trade Union Representations and Provision of Information to Interested Parties

The Fund invites relevant trade unions to send local representatives to a Joint Consultation Panel which meets at least three times per year to consider the activities of the Fund and elect four representatives to the Pensions Committee and two to the Investment Sub-Committee. Although these representatives 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.

### 7.4 View of Secretary of State

7.4.1 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."

## 8. Members' Personal Investments & Confidentiality

8.1 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.

8.2 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.

## 9.0 Assistance And Member Training

9.1 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. Currently training is provided through reports, the Fund's website and a range of presentations at various occasions throughout the municipal 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.

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**9.2** During the next three months, it is proposed that the Director of Pensions meet with all new members of the Pensions Committee. The purpose of the meeting is to establish, clarify and review any assistance that is required from Fund officers which will enable new members to achieve the requirements of their specialist role as described in paragraph 6. It is the intention of the Fund that all members of the Pensions Committee attend a three-day focused training event.

### **10. Financial Implications**

**10.1** The report contains financial information which should be noted.

### **11. Legal Implications**

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

### **12. Environmental Implications**

**12.1** The report contains no direct implications for the Authority's environmental policies.

### **13. Equal Opportunities Implications**

**13.1** This report has no implications for the Council's equal opportunities policies.