

Pensions Committee Meeting

Wednesday, 9 December 2015

Dear Councillor

PENSIONS COMMITTEE - WEDNESDAY, 9 DECEMBER, 2015

I am now able to enclose, for consideration at next Wednesday, 9 December, 2015 meeting of the Pensions Committee, a complete version of Appendix 4 to the following report on the agenda.

Agenda No Item

- 11 **Risk and compliance monitoring 1 July to 30 September 2015 (Pages 3 - 6)**
 [To consider the risk register and feedback on the quarterly compliance monitoring programme]

If you have any queries about this meeting, please contact the democratic support team:

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No.	Key Indicator	Examples of level for concern	Examples of good practice for high performing fund	Fund score	Evidence and comments	Minimum possible score	Maximum possible score
1	Risk management	No or only a partial and/or an unclear risk register with no or poorly specified or un-implemented mitigation actions over time leading to increased fund risk. No evidence of a risk register being	Comprehensive risk register covering the key risks (in accordance with current CIPFA guidelines) with prioritisation, robust mitigation actions, defined deadlines, with action tracking to completion. Evidence and e-links to demonstrate				
		a) prioritised	a) risks prioritised on a RAG red, amber, green or by a scoring methodology	1	a) Risks prioritised using a 5x5 scoring matrix		
		b) annually reviewed by Pensions Committee	b) completed actions signed off by Pensions Committee after at least annual update,	1	b) Departmental risk registers are reviewed at quarterly Senior Management Team meetings and top ten selected to present to Pensions Committee quarterly: http://wolverhampton.moderngov.co.uk/ieListMeetings.aspx?Committeed=186		
		c) annually reviewed by internal audit or external audit	c) annual review by internal audit and external audit	1	c) Internal audit review quarterly to look for any changes and then report annually to Pensions Committee. The 2014/15 annual internal audit report can be found at: http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?Cid=186&Mid=4824&Ver=4		
		d) used to reduce high risks	d) <3 priority/"red" risks	0	d) The Fund has 3 risks rated as "high".		
		e) available for public scrutiny.	e) public disclosure of a summary version published on fund website or in fund annual report.	1	e) Summary version published in the Fund's annual report: http://www.wmpfonline.com/annualreports		
	Self score -1 point for each one	Self score +1 point for each one		4		-5	5
2	Funding level and contributions (see explanatory notes)	a) Decreasing funding level (calculated on a standardised and consistent basis) and/or in bottom decile of LGPS, over the last three triennial valuations on a standardised like for like basis.	Evidence and e-links to demonstrate a) Funding level rising and getting closer to 100% funded (or above) over last three triennial valuations on a standardised like for like basis. Funding % 91 to >100 =score +5 80-90 =+4 70-79 =+3 60-69 = +2 <59 = +1	-1	a) The funding level reduced from 75% at the 2010 valuation to 70% at the 2013 valuation http://www.wmpfonline.com/article/4829/Actuarial-Valuation		
		b) No or minimal employer funding risk assessment and monitoring and not reported to Pensions Committee	b) Employer funding risk assessment and monitoring reports to Pension Committee. Net inward cashflow forecasts meeting planned income or significantly exceeding benefit outgoings.	1	b) We risk assess each employer and provide monitoring reports to Pensions Committee.		
		c) Total actual contributions and actual received in last 6 years less than that assumed and certified in last 2 triennial valuations.	c) Total actual contributions received in last 6 years equate to (or exceed) that assumed and certified in the last 2 triennial valuations.	1	c) Employers are generally paying the correct amounts due with the exception of a handful of cases.		
		d) Net inward cash flow less than benefit outgoings so need for any unplanned or forced sale of assets.	d) Net inward cash flow significantly exceeds benefit out-goings	1	d) A Hymans study we recently commissioned suggests net inwards cash flow currently exceeds benefit out-goings.		
			Self score -1 for each one	Self score a) as above and rest +1 for each one		5	
3	Deficit recovery (see explanatory notes)	a) No or opaque deficit recovery plan.	Evidence and e-links to demonstrate : a)Transparent deficit recovery plan for tax raising and non-tax raising bodies.		Transparent deficit recovery plan for tax raising and non-tax raising bodies, the FSS and 2013 actuarial valuation can be found at: http://www.wmpfonline.com/CHttpHandler.ashx?id=4589&p=0 http://www.wmpfonline.com/article/4829/Actuarial-Valuation		
		b) Lengthening implied deficit recovery period (for contributions)	b) Implied deficit recovery reducing each triennial valuation.	1	The Fund's deficit recovery period was 25 years at the 2010 valuation, reducing to 22 years at the 2013 valuations respectively.		
		c) Implied deficit recovery periods >25 years for last 3 valuations.	c) Implied deficit recovery period in line <15 years for last 3 valuations	0	See above		
			Self score -1 point for each	Self score +1 point for each one		2	
4	Investment returns (see explanatory notes)	a) Required future investment return (calculated on standardised and prudently consistent basis) not aligned to the investment strategy target return, so lower likelihood of the fund achieving its funding strategy.	Evidence and e-links to demonstrate : a) Required future fund investment return (calc by actuary) are consistent with and aligned to investment strategy (asset mix expected target returns) so higher likelihood of the fund meeting its funding strategy.		a) The investment strategy is formed with the aim of generating the returns required to meet liabilities.		
		b) Actual investment returns consistently undershoot actuarially required returns	b) Actual investment returns consistently exceed actuarially required returns	1	b) It is important that the Fund's investment returns over the last 10 years exceed actuarially required returns and for the Fund this is the case.		
			Self score -1 point for each one	Self score +1 point for each one		2	
Primary KPIs				13		-14	18

No.	Key Indicator	Examples of level for concern	Examples of good practice for high performing funds	Fund score	Evidence and comments	Minimum possible score	Maximum possible score
5	Pensions Committee and Pensions Board members competence	Appointees unclear of statutory role and unable to clearly articulate the funds funding and investment objectives. No evidence of	Appointees understand their statutory role and are able to clearly articulate the funds funding and investment objectives Evidence and e-links to demonstrate				
		a) different scheme employer types and no or minimal scheme member representation.	a) representation from different scheme employer types (scheduled and admitted) and member types (actives, deferred and pensioners).	1	a) Representation from different scheme employer types and member types, detailed at http://wolverhampton.moderngov.co.uk/mgListCommittees.aspx?bcr=1		
		b) No training needs analysis, or training strategy, or training log or use of CIPFA LGPS training framework.	b) annual training plan recorded against the CIPFA knowledge and understanding framework.	1	b) Trustee training policy in place for Pensions Committee/IASC members. A training timetable has also been developed for the new Pensions Board. Training is structured to fulfil the CIPFA Knowledge and Skills requirements. The Fund jointly won the "Trustee Development" award at the 2015 Pension Scheme of the Year Awards. The 2014/15 Trustee Training report can be found at: http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4824&Ver=4		
		c) No training record disclosures	c) annual training records disclosed in Annual Report	1	c) All training is logged and disclosed in the Annual Report: http://www.wmpfonline.com/annualreports		
		d) Self assessment	d) annual self-assessment of training undertaken and identification of future needs.	1	d) Training needs analysis is carried out subjectively by Senior Managers and through evaluation forms which ask members which areas they feel they need training on.		
		Self score core -1 point for each	Self score +1 point for each one	4			-4
6	Administering authority staff accountability, leadership, experience, and training		Evidence and e-links to demonstrate				
		a) No or only part time Head of Fund and or only part time officers	a) Experienced Head of Fund with full time dedicated officers with at least 3+ years' experience.	1	a) Excellent experience and knowledge in all areas ranging from Pensions Administration through to Investments. Average of 15 years' experience across the Senior Management Team in Finance, Governance, Investments and Pensions Administration.		
		b) No or little induction or on-going training provision or experience recorded on the adoption of CIPFA LGPS knowledge and understanding framework.	b) staff undertake regular CIPFA LGPS TKU or other CPD training recorded across all LGPS skills (governance, benefits administration, funding, investments, and comms)	1	b) Training policy in place and recorded hours reported monthly to Senior Management Team meetings. CPD and structured program in place for CFA, PMI, CIPP and Accounting.		
		Self score -1 for each one	Self score +1 point for each one	2			-2
7	Statutory governance standards and principles (as per DCLG guidance and TPR codes)	Several key areas of non- compliance with	Evidence and e-links to demonstrate				
		a) DCLG LGPS statutory guidance	a) Full compliance with DCLG LGPS statutory guidance	1	a) 100% compliant with DCLG guidance		
		b) TPR guidance and codes and reasons why not explained.	b) Full compliance with TPR guidance and codes for public sector pension schemes	0	b) Undertaken TPR code self assessment. To be taken to next Pensions Committee and Board. Areas for development identified, working towards full compliance.		
		c) No, little or poor key decision taking records and no or poor self, or scheme employers, or scheme members assessment of overall fund effectiveness.	c) Meet or exceed other LGPS best practice on recording all key decision taking and annual self, scheme employers, scheme member assessment of overall effectiveness.	1	c) All decision taking recorded e.g. at Pensions Committee, Pensions Board, IASC and SMT meetings. Participate in CIPFA, SF3 and WM Company benchmarking to self assess our overall effectiveness. Member and employer satisfaction surveys are available as hardcopies (e.g. in our reception) and online. Feedback from these are reviewed quarterly.		
		Self score -1 for each one	Self score +1 for each one	2			-3
8	Quality and accessibility of information and statutory statements, strategies, policies (governance, FSS, SIP, comms, admin authority and employer discretions policies)		Evidence and e-links to demonstrate				
		a) Statutory publications not all in place or published on fund website or updated in accordance with regulatory requirements and due timelines.	a) Statutory publications all in place and published on fund website and updated in accordance with regulatory requirements and due timelines.	1	a) Publications all in place and published on the Fund website and updated in accordance with regulatory requirements and due timelines.		
		b) Fund and employers discretions not published	b) Fund and employer discretions published	0	b) Employers discretions are not published. We will from time to time advise Committee of Fund discretions and when they are agreed/exercised, however we do not cover specific employer discretions as there are so many of them bespoke to each employer. Going forward we will publish our Fund discretions and a list of employers who have discretions, with links to their websites.		

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		c) Do not seek to meet any recognised 'Plain English' or e-publishing standards Self score -1 for each one	c) Meet 'Plain English' and or other recognised e-publishing standards. Self score +1 for each one	0 1	c) Whilst we endeavour to ensure our documents meet 'plain English' standards we do not hold the Crystal Mark for plain English to meet this standard. This is not something we are pursuing at the moment.	-3	3
9	a) Adoption and report compliance with Investment Governance Principles (IGP) (was Myners Principles) and voluntary adoption/signatory to FRC Stewardship Code and UNPRI	No or un-explained non- compliance and/or non-support of a) IGP b) UK Stewardship Code c) UN PRI Self score -1 for each	Evidence and e-links to demonstrate a) 100% compliance with IGP b) adoption and public reporting of compliance against the FRC UK Stewardship Code c) external managers or fund are PRI signatories Self score +1 for each	1 1 1 3	a) Compliant with Myners Principles: http://www.wmpfonline.com/CHttpHandler.ashx?id=4606&p=0 b) The Fund has signatory status to the FRC UK Stewardship Code and publishes its compliance against the Code on its website at http://www.wmpfonline.com/CHttpHandler.ashx?id=4650&p=0 c) Fund has signatory status to UNPRI	-3	3
10	a) Historic investment returns (last 1, 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds. (See explanatory notes)	a) overall fund investment returns (net of fees) for last 1, 3, 5 years bottom two quintiles Score -3 and -5 points b) Retain fund managers under-performing their mandates for 2 triennial valuation cycles. Score -1 point c) Fund does not benchmark its fund manager and total investment costs relative to other LGPS funds. Score -1 point	Evidence and e-links to a) overall fund investment return (net of fees) for last 1, 3, 5 years a) Top quintile score +5 points b) Next two quintiles score +3 and 0 points respectively b) >75% of fund mandates deliver over rolling 3 year performance periods. Score +1 point c) Fund benchmarks its fund manager and total investment costs Score +1	0 0 0 1 1	a) The Fund's performance is not in the top or bottom quintiles over all 1, 3 and 5 year periods. b) The Fund's 1 year performance is in the top quintile, 3 year performance is in the 4th quintile and 5 year performance is in the bottom quintile. c) The Fund benchmarks its fund manager and total investment costs in CIPFA and SF3 benchmarking.	-7	7
11	Annual report and audited financial statements	a) Do not fully meet some regulatory requirements or CIPFA LGPS guidance b) Not published in Admin Authority Accounts by 1 st October. c) Published on SAB website after 1 st November Self score -1 for each one	Evidence and e-links to demonstrate a) Meet all regulatory and CIPFA best practice guidance b) Publish in Administering Authority accounts by 1 st October c) Publish fund report and accounts of SAB website before 1 st November. Self score +1 for each one	1 1 1 3	a) See KPI 17 b) Achieved, http://www.wolverhampton.gov.uk/CHttpHandler.ashx?id=7922&p=0 c) Achieved, http://www.lgpsboard.org/index.php/fund-annual-reports-2015	-3	3
12	Scheme membership data	a) Common data does not meet TPR standards b) Conditional data do not meet the TPR standards. No plans in place to rectify this. Self score -1 for each	Evidence and e-links to demonstrate a) >99% common data meets TPR quality and due date standards b) >95% of conditional data meets TPR quality and due date standards. Plans in place to improve this. Self score +1 for each one	-1 -1 -2	The TPR standard for common data after June 2010 is 0% failure and 5% failure for data before June 2010. It is difficult to split the data between pre and post June 2010. Therefore we try to achieve 0% failure for all data. We are working on our common and conditional data.	-2	2
13	Pension queries, pension payments, and Annual Benefit Statements	a) No or poor website with no scheme member or employer access. b) ABS do not meet regulatory requirements or due timelines for issuance. Self score -1 for each	Evidence and e-links to demonstrate a) Good website with interactive scheme member and employer access. b) ABS meet or exceed regulatory standards and due timelines for issuance. Self score +1 for each	1 -1 0	a) The Fund engaged with customers when the website was redesigned in August 2014. Webportal allows employees to login and access their details and allows employers to load and amend data. b) The Fund did not meet the statutory deadline of 31st August 2015 for issuing Annual Benefit Statements. This was the first time the Fund did not meet the ABS deadline.	-2	2
14	Cost efficient administration and overall VFM fund management	a) In bottom quartile with high total admin cost pa per member (based CIPFA or other benchmark tool).	Evidence and e-links to demonstrate				

No.	Key Indicator	Examples of level for concern	Examples of good practice for high performing funds	Fund score	Evidence and comments	Minimum possible score	Maximum possible score
		b) Not in any national or regional frameworks for any externally procured services or collective investments. Self score -1 for each	a) In top quartile with low total admin cost pa per fund member (based CIPFA or other benchmark tool calculated on a consistent and transparent basis). b) Lead and/or actively participates in collaborative working and collective LGPS procurement, shared services or CIVs Self score +1 for each	1 1 2	a) For SF3 benchmarking, 7th best for total management costs (includes administration and fund management costs) and 12th best for administration costs. Therefore top quartile. b) Actively participates in collaborative working and collective LGPS procurement.	-2	2
15	Handling of formal complaints and IDRPs	a) Any Pensions Ombudsman determinations (and any appeals) fines were against the actions of the fund (ie not employer). Score -1	a) No Stage 2 IDRPs and no Pensions Ombudsman findings against the fund actions in last 3 years. Score +1	-1 -1	a) Six cases progressed to the Ombudsman in the last three years, one resulting in a determination against the Fund.	-1	1
16	Fraud prevention	No or minimal systems/programme or plan or mechanisms in place to a) Prevent fraud b) Detect fraud c) detect pension over-payments due to unreported deaths Self score -1 for each one	Evidence and e-links to demonstrate a) Fraud prevention programme in place. b) Use external monthly, quarterly/annual mortality screening services, and c) participate in bi-annual National Fraud Initiative. Self score +1 for each one	1 1 1 3	a) The Fund is part of the Council's corporate fraud activities which includes a corporate fraud awareness training programme (via the Council intranet), fraud surgeries, fraud awareness presentations, and a whistleblowing hotline: http://www.wolverhampton.gov.uk/article/3057/Fraud-and-Corruption b) Use mortality screening services, through Millenium Halo and Club Together magazine. c) Participate in bi-annual national fraud initiative.	-3	3
17	Internal and external audit	a) No annual internal audit or qualified internal and external audit opinions b) Urgent management action recommended on high/serious risks. c) Only moderate or low level of assurance and a number of high priority action recommended Self score -1 for each	Evidence and e-links to demonstrate a) Unqualified annual internal reports with no or only low priority management actions b) Unqualified and annual external audit with no or only low priority management recommendations. c) Full or substantial assurance against all key audit areas with no high risk recommendations. Self score +1 for each	1 1 1 3	a) In the annual report internal audit reported that overall they could provide reasonable assurance that the Fund has adequate governance, risk management arrangements and internal control processes in place. The 2014/15 annual internal audit report can be found at: http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4824&Ver=4 b) Unqualified annual external audits. For 2014/15, there are no areas of significant control weaknesses. There may be one minor recommendation for improvement, but this may well be a third party issue, rather than the Fund's. c) Our score reflects the fact that internal audit have indicated that professionally, they would never be able to give absolute assurance (reasonable assurance is the professional standard audit work to) and b) above.	-3	3
18	Quality assurance	No evidence of a) quality management system b) external reviewed publications c) externally approved website accessibility d) any awards. Self score -1 for each one	Evidence and e-links to demonstrate a) Fund has formal quality management external certification b) Crystal Mark for plain English for publications/forms c) externally approved website accessibility d) pensions & investment recognition award(s) Self score +1 for each one	1 0 1 1 3	a) The Fund has held the Customer Service Excellence accreditation since 2008 and CIPFA Governance Mark of Excellence since early 2015, but does not hold a formal quality management external certification such as BSI or ISO. b) The Fund does not hold Crystal Mark for plain English for publications/forms, however the website and publications were reviewed at a high level as part of the above accreditations - no issues were raised. c) Website accessibility has not been formally externally approved, however see above. d) Have won 17 pensions and investment industry recognition awards over the last 17 years.	-4	4
Secondary KPIs				24		-42	42
Total KPIs				37		-56	60

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