

Time 10.00 am **Public Meeting?** YES **Type of meeting** Pensions

Venue Committee Room 3 - Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

Membership

Chair Cllr Stephen Simkins (Lab)
Vice-chair Cllr Milkinderpal Jaspal (Lab)

Labour

Cllr Harman Banger
Cllr Jasbinder Dehar
Cllr Keith Inston
Cllr Phil Page
Cllr John Reynolds
Cllr Clare Simm

Conservative

Cllr Paul Singh
Cllr Jane Stevenson

District Members

Cllr Muhammad Afzal (Birmingham City Council)
Cllr Joe Roberts (Dudley Metropolitan Borough Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Bally Singh (Coventry City Council)
Cllr Joe Tildesley (Solihull Metropolitan Borough Council)
Cllr Rose Martin (Walsall Metropolitan Borough Council)

Trade union observers

Malcolm Cantello
Martin Clift
Ian Smith

Quorum for this meeting is eight Councillors.

Information for the Public

If you have any queries about this meeting, please contact the Democratic Services team:

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[NOT PROTECTIVELY MARKED]

Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

Agenda

Part 1 – items open to the press and public

- | <i>Item No.</i> | <i>Title</i> |
|-----------------|--|
| 1 | Apologies for absence (if any) |
| 2 | Notification of substitute members |
| 3 | Declarations of interests (if any) |
| 4 | Minutes of the previous meeting - 27 March 2019 (Pages 7 - 20)
[For approval] |
| 5 | Matters arising
[To consider any matters arising from the minutes of the previous meeting] |
| 6 | Appointments and Dates and Times of Meetings 2019-20 (Pages 21 - 24)
[To note/approve appointments and dates and times for meetings of the Committee and the Pensions Board] |
| 7 | Internal Audit Annual Report 2018-2019 (Pages 25 - 34)
[To provide the outcome of the work programme for internal audit for 2018-2019] |
| 8 | Governance Update Report (Pages 35 - 50)
[To provide an update on the work of the Fund to deliver a well governed scheme and to note the current regulatory environment in which the Fund operates] |
| 9 | Annual Report of the Local Pensions Board (Pages 51 - 68)
[To provide feedback on the work undertaken by the Local Pensions Board during 2018/19 and to meet the legislative requirement for producing an annual report] |
| 10 | Quarterly Investment Report to 31 March 2019 (Pages 69 - 88)
[To present the quarterly investment report] |
| 11 | Responsible Investment Activities (Pages 89 - 138)
[To provide an update on the work undertaken in relation to responsible investment activities since the last meeting] |
| 12 | Statement of Accounts 2018-19 (Pages 139 - 192)
[To approve the draft Statement of Accounts for the year ending 31 March 2019] |
| 13 | Budget Monitoring 2018-19 and Quarterly Accounts March 2019 (Pages 193 - 202)
[To provide an update on the outturn for the year against operating budgets and quarterly accounts as at the end of March 2019] |

- 14 **Business Performance and Data Management** (Pages 203 - 226)
[To provide an update on the work of the Fund in delivering improved data quality in line with the Pension Regulator's Code of Practice, and on an end of year overview of Fund performance against its set objectives]
- 15 **Pensions Administration Report 1 January to 31 March 2019** (Pages 227 - 252)
[To provide an update on the work undertaken by the pensions administration service during the period 1 January to 31 March 2019 for both the Main Fund and the West Midlands Integrated Transport Authority Fund]
- 16 **Customer Engagement Update** (Pages 253 - 278)
[To provide an update of the Fund's customer engagement activity from 1 January to 31 March 2019, in line with its Customer Engagement Strategy]
- 17 **Exclusion of press and public**
[To pass the following resolution:
- 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 items of business as they involve the likely disclosure of exempt information on the grounds shown below]

Part 2 - exempt items, closed to press and public

- 18 **Investment Strategy and Activity Update** (Pages 279 - 288)
[To provide an update on investment strategy and activity in the West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund over the last quarter]
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
- 19 **LGPS Central Investment Pooling**
[To provide an update on the LGPS Central activity][**Report to follow**]
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
- 20 **Annual Report on the Investment Advisory Panel and the Investment and Funding Strategy Panel for West Midlands Integrated Transport Authority Pension Fund** (Pages 289 - 302)
[To report on the activities of the Investment Advisory Panel and the West Midlands Integrated Transport Authority Strategy Panel (Investment and Funding) during 2018/19]
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)

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| 21 | <p>2019 Actuarial Valuation Update (Pages 303 - 312)
[To provide an update on progress of the 2019 actuarial valuation]</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)</p> |
| 22 | <p>Pension Fund Structure 2019 (Pages 313 - 322)
[To provide an overview of staffing within the Fund service structure, together with proposed changes to support service delivery and day-to-day decision making]</p> | <p>Information relating to any individual. Para (1)</p> |

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee Minutes - 27 March 2019
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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 Stephen Simkins
Cllr Clare Simm
Cllr Jane Stevenson
Cllr Paul Sweet
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell MBC)
Cllr Angela Sandison (Solihull MBC)
Cllr Angela Underhill (Walsall MBC)
Malcolm Cantello (Trade Union Observer Representative)

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
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
Simon Taylor	Head of Pensions - 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 John Mutton (Coventry City Council), Councillor Paul Singh (City of Wolverhampton Council) and Martin Clift and Ian Smith (Unite Trade Union observer representatives).

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 - 12 December 2018**

Resolved:

1. That the third paragraph to minute 5 (Matters arising) be corrected by the deletion of the words 'some employees' and the insertion of 'uniformed and non-manual employees'.
2. That recommendation 4 to minute 7 (Quarterly Investment Report to 30 September 2018) be corrected by the addition of the words 'Pension Fund' after the words 'Transport Authority'.
3. That recommendation 3 to minute 14 (Pension Administration Report from 1 July to 30 September 2018) be corrected by the addition of the words 'be noted' at the end of the sentence.
4. That subject to 1 to 3 above, the minutes of the meeting held on 12 December 2018 be approved as a correct record and signed by the Chair.

5 **Matters arising**

Rachel Brothwood, Director of Pensions reported that updates on the following matters arising from the minutes of the previous meeting were included in the agenda items specified:

- Minutes 5 and 12 (Matters Arising) concerning the Committee's concerns at the impact on the Fund of changes to the Local Government Pension Scheme impacting benefit administration at short notice - item 10 on the agenda.
- Minute 8 (Responsible Investment) and correspondence Councillor John Mutton had received on Fund investments - item agenda item 7.
- Minute 14 (Pensions Administration Report from 1 July to 30 September 2018) on the membership movement in the Main Fund - item 17 on the agenda

6 **Quarterly Investment Report to 31 December 2018**

Jill Davys, Assistant Director – Investments and Finance presented the report on a range of investment issues, primarily the economic and investment background and the quarterly performance of both the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund (WMITA PF). Supporting responsible investment activities was covered in a separate paper on the agenda for the meeting.

Malcolm Cantello (Unison) noted the variance between the investment strategies of the two employers in the WMITA PF. He asked whether there would be a coming together of the approaches the two had towards risk in the light of the proposed merger of the WMITA PF with the West Midlands Pension Fund. The Assistant Director – Investment and Finance confirmed that the two scheme employers were at different positions in terms of their, maturity, funding and resources and therefore had different strategies and approaches to risk. Rachel Brothwood, Director of Pensions added that the differential strategies were to be maintained for the closed transport fund.

In response to Malcolm Cantello about levels of cash held by the Main Fund, the Assistant Director confirmed that the Fund was holding cash for investment into income generating assets and to cover currency positions.

Councillor Angela Sandison noted performance in the global active equity portfolio and queried whether it had been affected by the Fund being underweight in the US. She asked, with weather events likely to become more extreme through global warming, should the Fund reduce its risk in the insurance linked fund. The Assistant Director acknowledged that global active equities were underweight in US equities and went on to explain the action to take out some of the risk exposure pending transition to a sustainable equity portfolio. Regarding the insurance linked fund; whilst recent performance in the sector had been poor, the ten-year performance was still showing a positive return. The Director of Pensions added that she noted the concerns and performance of the insurance linked funds for the period and confirmed that the Fund was taking a wider review of this market.

Councillor Claire Simm noted the reduction in the value of the Fund during the nine month period to date and asked whether this was typical for that part of the year. The Chair commented that there had been a global wide blip. The Fund took a long-term view of its investment value, noting the recovery already observed in the current quarter. It was noted that overall the Fund had performed well relative to its benchmark and against other LGPS and non LGPS peers.

Resolved:

1. That the global economic and market update paper prepared by the Fund's adviser, Hymans Robertson be noted.
2. That the quarterly performance reporting for the West Midlands Pension Fund be noted.
3. That the quarterly performance reporting for the West Midlands Integrated Transport Authority be noted.
4. That the updated benchmarking information received in relation to the Fund's investment performance and costs be noted.

7 **Responsible Investment Activities**

Rachel Brothwood, Director of Pensions took the Committee through the detailed report on the work undertaken by the Fund in relation to responsible investment since the last meeting.

Malcolm Cantello (Unison) asked, in light of the recent Climate Change conference in Krakow, was it necessary for the Fund to update its framework and strategy for managing the risks and opportunities presented by climate change. The Director of Pensions reported that no firm outcomes had emerged from the conference although there was a recognition that policy-makers were moving forward. The Fund's four-year framework will be reviewed annually, noting the pace at which policy was evolving.

Councillor Stephen Simkins suggested that the Fund should have a strategy for its involvement in new green technologies. The Director of Pensions reported that further information would be available to Committee as the Fund developed its investment in those areas.

Councillor Jane Stevenson asked whether the decision of President Donald Trump to withdraw the United States from the Paris Agreement on Climate Change was impacting on the stance companies were taking to climate change issues. The Assistant Director reported that she did not believe there had been a negative impact and companies were continuing to make progress in the US and investors continued to use their influence on companies to comply with the Agreement.

Commenting on the Fund's activity on the stewardship theme of diversity, Councillor Angela Sandison suggested that the best person for the job should be appointed rather than applying quotas. In agreeing with the point, the Chair said that some companies do not have an interest in the diversity agenda. The Fund was seeking to use its influence to make positive impacts on appointments. He thanked the Committee and the Fund for the way it used its powers in partnership and through its share holdings and voting activity to see positive change in company behaviour.

Resolved:

1. That the Fund's Framework and Strategy for Managing the risks and opportunities presented by climate change be approved.
2. That the Fund's voting and the Local Authority Pension Fund Forum's (LAPFF's) engagement activity for the three months ending 31 December 2018, including Appendix A to the report be noted.
3. That it be noted that the issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website: <https://www.lgpscentral.co.uk/responsibleinvestment/>
4. That it be noted that the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website: <http://www.lapfforum.org/publications/qrtly-engagement-reports/>
5. That correspondence received from the DivestWMPF campaign group, and the Fund's response, together with a request to LAPFF to consider direct engagement with Lockheed Martin be noted.
6. That further work undertaken to develop the Fund's responsible investment approach be noted.

8 **Investment Strategy Statements Review**

Jill Davys, Assistant Director - Investment and Finance presented for review and approval the Investment Strategy Statements updated for the West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund (WMITA PF).

In response to questions from Malcolm Cantello (Unison), the Assistant Director confirmed that the smaller employer within the WMITA PF referred to in the report was Preston Bus Limited.

Councillor Stephen Simpkins informed the Committee that he was Champion for Air Quality on the West Midlands Combined Authority (CA). Issues relating to climate change would also be captured within the Transport Delivery Committee at the Combined Authority.

The Chair thanked the Fund's Senior Management team and employees who had been involved in the work behind the drafting and finalisation of the strategy statements included in this agenda item and elsewhere on the agenda for today's meeting.

Resolved:

That the revised Investment Strategy Statements (ISSs) drafted for the West Midlands Pension Fund (WMPF) and West Midlands Integrated Transport Authority Pension Fund (WMITAPF) be approved and it be noted that:

1. The ISSs have been prepared in line with the statutory requirements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
2. The WMPF ISS has been updated to reflect changes to wider Fund policies referenced within the Statement, as well as reflecting changes following the launch of LGPS Central Ltd
3. The WMITA PF ISS has been updated to reflect further restructuring of the strategic asset allocation benchmarks in line with a risk reduction strategy for both employers in the Fund
4. A copy of both Statements will be published on the Fund's website.

9

Funding Management Update

Simon Taylor, Head of Pensions asked that recommendation 1 in the published report be withdrawn as the Fund had extended consultation on the Funding Strategy Statement (FSS). The consultation period would end on 30 April 2019. The Head of Pensions presented the report on an overview of the proposed changes to the Funding Strategy Statement (FSS) following the release of LGPS Amendment Regulations. He explained the main change that related to the introduction of a provision to refund a surplus to an employer upon cessation, defined as an 'Exit Credit'.

In response to a question concerning the Exit Credits, the Head of Pensions advised that the Fund was not in surplus at Fund-level, but it did have some admitted bodies that were. He explained the changes that would take place in the light of LGPS Amendment Regulations and the proposed FSS. Rachel Brothwood, Director of Pensions expanded the discussion on 'pass through arrangements' that would be introduced in response to the Exit Credit legislation.

Resolved:

1. That authority be delegated to the Director of Pensions to finalise the Funding Strategy Statement and attaching Termination Policy, in consultation with the Chair of Pensions Committee, following the completion of the consultation with participating employers.
2. That the request to provide comment on the proposed changes to the Funding Strategy Statement and attaching Termination Policy as part of the consultation process be noted.

10 **Regulatory Update**

Rachel Howe, Head of Governance and Corporate Services presented the update report on forthcoming and potential regulatory changes across the Local Government Pension Scheme (LGPS). The Fund continued to see and manage a series of changes, with a number of consultations (both directly and indirectly) related to the LGPS issued within the last 3-6 months. With reference to an issue raised at the previous meeting (12 December 2018), the report contained a response from the Scheme Advisory Board to the Fund's letter on concerns on the late notice of potential scheme changes from April 2019 and the impact this had on the service the Administering Authority was able to provide to scheme members and employers.

The Chair informed the Committee that the Minister for Local Government had appointed him onto the Scheme Advisory Board.

Resolved:

That the current regulatory environment, consultations which could impact the Local Government Pension Scheme and the steps the Fund is taking to prepare for those changes be noted.

11 **Governance Update Report**

Rachel Howe, Head of Governance and Corporate Services reported on the main highlights from the update report on the work of the Fund in delivering a well governed scheme. The Committee was asked to approve statutory Governance Compliance and Administering Authority Discretion Statements for 2019.

The Chair thanked everyone who took part in the AON Governance Review, the outcomes from which had been extremely positive. He also referred to the Fund's participation in the Pensions Regulators 'deep dive' into ten Local Government Pension Scheme (LGPS) funds to further their understanding of the risks and challenges faced by Funds. The Regulator's visit to the Fund had gone well and they were satisfied with how the Fund was managed and run. He looked forward to seeing the Regulator's final report due to be issued in the summer.

The Director of Pensions agreed to circulate a link to the report from AON's Governance Review to members of the Committee.

Malcolm Cantello (Unison) asked about the extent of the liaison with investment managers on the late trades reported during the quarter October to December 2018. Rachel Howe, Head of Governance and Corporate Services advised that the Funds' custodian HSBC reported on the late trades and it was their action that led to the occurrences. The Assistant Director - Investment and Finance added that late trades could happen at any time and she undertook to follow up on the issues and report back to the Committee. The Chair informed the Committee that there was no detriment to the Fund due to the late trades but it was right that the Committee monitored the position and any impacts on the Fund.

In welcoming the increase in the production of Annual Benefit Statements (ABS) for Fund members from 70 % to 83% since the last meeting, Councillor Angela Sandison asked about the remaining 17%. The Director of Pensions reported that as part of the ongoing work to maximise production of benefit statements, the Fund had through dialogue with employers noted that of the total active membership records, 88% were believed to be eligible to receive a 2018 annual benefit statement. Steady progress was being made to close the gap.

Malcolm Cantello observed that undertaking training was missing from the 'roles of the members of the Committee' in the Governance Compliance Statement. It was agreed that this be included.

Resolved:

1. That the Governance Compliance Statement be approved subject to the inclusion of the role for members of the Committee 'To undertake training'
2. That the Administering Authority Discretion Statement for 2019 be approved.
3. That the top ten risks for this quarter and their movement be noted.
4. That the quarterly compliance monitoring be noted.
5. That the work of the Fund to continue maximising the production of Annual Benefit Statements for members be noted.
6. That the ongoing engagement with LGPS Central in further developing the good governance and reporting in line with the Government consultation on investment pooling be noted.
7. That the ongoing engagement with the Pensions Regulator in the review of the Fund's Good Governance assessment be noted.
8. That the outcome of the AON Hewitt governance review be noted.

12 **Internal Audit Plan 2019/2020**

Amanda McDonald, Client Lead Auditor, City of Wolverhampton Council presented an outline work programme for the Fund's internal audit for 2019/2020. Internal audit was a key part of the Fund's governance and financial control framework, and aimed to provide assurance that the Fund's systems, processes and controls were operating effectively and in support of the Fund's overall aims and objectives.

The Chair asked about milestones during the year for the programme and whether the Committee would be informed of any areas of concern if they arise during the audit process. The Client Lead Auditor reported that the internal audit plan was agreed with the Fund's senior officers and progressed during the year. At the end of the year Internal Audit would report back to the Committee on progress made with the implementation of the plan. Any issues of significance that are highlighted during the audit would be reported to the Committee.

Resolved:

That the internal audit plan for 2019/2020 be noted.

13 **Business Performance and Data Management**

Rachel Howe, Head of Governance and Corporate Services presented an update on the work of the Fund to ensure ongoing review of service delivery which meets the standards and expectations of its members and employers.

Resolved:

1. That the Fund's Service Plan 2019-2024 be approved.
2. That the Fund's Key Performance Indicators be noted.

3. The progress of the Fund in delivering its Digital Transformation Programme be noted
4. The work ongoing to improve delivery of Data Management across the Fund as part of the review of the monthly submissions programme be noted.

14 **Budget Monitoring 2018/2019 and Quarterly Accounts December 2018**

An updated report was tabled. Jill Davys, Assistant Director – Investments and Finance reported on the key highlights from the update report on the forecast outturn for the year against operating budgets and quarterly accounts as at the end of December 2018 for the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund.

The Chair noted the breadth of work undertaken by the Committee and the Fund as highlighted in the committee reports presented. He also said that the Fund had been an industry leader in taking steps to report all its investment management costs but not all adopted the same practice, leading to some unfair comparisons.

Malcolm Cantello (Unison) asked whether the Fund's Investment Managers were complying with the Transparency Code. Jill Davys, Assistant Director - Investments and Finance reported that managers that work with LGPS Central had signed up to the Code and where the Fund goes out to tender it is a requirement for appointment. LGPS Central Limited was also a signatory to the Code. Work was ongoing to collate information for the 2019 year-end, with a notable increase in return rates as managers improved reporting. Malcolm Cantello welcomed that the investment managers were co-operating on this matter.

Resolved:

1. That it be noted that the quarterly accounts for the period ending 31 December 2018 show that:
 - the value of West Midlands Pension Fund at this date was £15.1 billion, a decrease of £281.8 million from 31 March 2018.
 - the value of West Midlands Integrated Transport Authority Pension Fund at this date was £491.5 million, a slight decrease from the £492m million as at 31 March 2018.
2. That it be noted that the West Midlands Pension Fund forecast outturn for the year against operating budgets as at the end of December 2018 is an underspend of £4 million primarily attributable to lower investment management costs.

15 **External Audit Plan 2018/2019**

Jill Davys, Assistant Director – Investments and Finance presented a report on the Fund's external auditors (Grant Thornton's) plan for the audit of the Fund's Annual Report and Accounts for 2018/2019. The external auditor had produced a document 'Informing the Audit Risk Assessment', that set out some of the potential areas of risk with regard to the Annual Report and Accounts. The document provided management responses to a number of questions posed by the auditor, and the Committee was invited to consider whether the responses were consistent with its own understanding, and whether it had any further comments to make on the matters.

Commenting on the level of materiality as determined by the external auditors, Malcolm Cantello (Unison) said that he did not know of any organisation whose materiality level was set at such a high level. He also commented that the figure of £5.5 million for 'clearly trivial' was not trivial. The Chair commented that it was an external audit benchmark. Any issues identified below the materiality level would be picked up through internal audit process and addressed.

Resolved:

1. That the management responses to questions from the external auditors, Grant Thornton LLP, as part of their audit planning be approved.
2. That authority be delegated to the Chair of Pensions Committee to approve the final publication of the 2018/2019 Annual Report and Accounts following audit in July and approval of the draft Report by Committee in June 2018.
3. That the external audit plan for the 2018/2019 Annual Report and Accounts as prepared by Grant Thornton be noted.

16

Budget 2019/2020 and Financial Plan to 2023/2024

An updated report was tabled. Rachel Brothwood, Director of Pensions presented the report requesting approval for the Fund's operating budget for 2019/2020 and the medium-term financial plan for the five years up to and including 2023/2024. The Director informed the Committee that a higher operational budget for 2019/2020 was being requested to enable the Fund to build capacity to respond to higher service demands, enable project work to support transformation and ensure sufficient expertise in-house to deliver on the industry-leading policy frameworks in place.

Malcolm Cantello (Unison) requested a report on the Fund's staffing structure arising from the increased staffing budget. He also sought clarification on the proposed budget for External Investment Management costs which was at variance with the figure contained in the Budget Monitoring 2018/2019 and Quarterly Accounts December 2018 report elsewhere on the agenda. The Director of Pensions undertook to share more detailed information on the staffing structure with the Committee

Referring to the Fund's staffing budget for 2019/2020, the Chair reported that the Fund was looking to develop its people through workforce development and meet the challenge of recruitment and retention faced across the LGPS as a whole.

Regarding the external management investment costs he noted that the area was difficult to forecast with a high level of accuracy due to scale of assets and variable performance fees. Until the invoices are received and cost transparency data captured the actual costs would not be known.

Malcolm Cantello also referred to the budgeted 6 % annual increase in External Investment Management costs during the life of the financial plan to 2023/2024. The Director of Pensions recognised that the projections were simplistic but that there were a number of unknowns which could impact future costs including changes to the Fund's investment strategy where a need for greater income-generating assets could result in re-allocation to more expensive assets, albeit still targeted to meet return and cashflow requirements.

The Chair said that he wanted to see greater transparency within the industry on the reporting of investment management costs.

Responding to a point of clarification from Malcolm Cantello, the Director of Pensions confirmed that there was an error with the opening and closing balances in tables 5 and 6 in the original published report. The first column should not have been included in both tables. The error had been corrected in the tabled report.

Resolved:

1. That the Operating Budget for 2019/2020 be approved.
2. That the Medium-Term financial plan for the period to 2023/2024 be approved.

17

Pensions Administration Report from 1 October to 31 December 2018

Amy Regler, Head of Operations presented the report on work undertaken by the pensions administration service during 1 October to 31 December 2018 for both the Main Fund and the West Midlands Integrated Transport Authority (WMITA) Pension Fund.

Malcolm Cantello (Unison) asked whether the Pensions Administrative Statement (PAS) covered occasions when delays in the production of Annual Benefit Statements (ABS) are caused by scheme employers and when an employer was the cause of a delay, whether the reason was communicated to the scheme member. The Head of Operations confirmed that the PAS looked at timeliness and quality of information received from employers. Where the Fund had to query information with the employer was where the delays often occurred. Member and Customer services representatives would feedback to employees the reasons for delays during their engagement with them. Also, if a scheme member contacted the Fund regarding an update on their request for information such as a quote, and a response had been held up pending receipt of information from their employer, the Fund would explain to them that the matter was with their employer from whom the Fund was awaiting information to issue a response. Rachel Brothwood, Director of Pensions reported that this was an area where the Fund wanted to invest in technology in order to have more timely engagements with employers, with quicker resolution for members. The Fund is developing reporting capabilities to assist management of queries internally and externally.

Councillor Angela Underhill asked whether the complaints the Fund received from scheme members were due to member lack of understanding of the regulations or a lack of clarity in the regulations. The Head of Operations reported that it could be both. The Fund utilises the member engagement events and face-to-face meetings to aid understanding. The Fund website is regularly reviewed and updated with information and work is ongoing to develop other channels for scheme member education.

In supporting the comments, the Chair added that the Fund was looking to build upon its communication about the Pension Fund. The video-shorts were proving a popular addition to the face-to-face meetings already taking place.

Resolved:

1. That the write-offs detailed in section 11 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 continued increasing work volumes be noted.

18 **Pensions Administration Strategy 2019**

Simon Taylor, Head of Pensions presented the report that outlined revisions to the Pension Administration Strategy (PAS), for approval in preparation for the revised strategy being implemented from April 2019. Consultations on the draft strategy commenced on 25 February and ended today, 27 March 2019. Eight observations were received during the consultation period. Having considered the observations, it was not proposed to alter the Employer Engagement Roadmap or Pension Administration Strategy. The eight respondents would receive a response to the point raised.

Resolved:

That the revised draft Pension Administration Strategy and associated Employer Engagement Roadmap be approved.

19 **Customer Engagement Update**

Simon Taylor, Head of Pensions presented the main highlights from the update report of the Fund's customer engagement activity from 1 October to 31 December 2018, in line with its Customer Engagement Strategy.

The Chair commented that customer engagement was of vital importance to the Committee. Therefore, whatever the Fund could do to demystify the pensions service to existing and prospective scheme members was welcomed.

Resolved:

1. That the revised Customer Engagement Strategy and associated Customer Engagement Plan (appendices C and D to the report) as outlined in section 12 to the report be approved.
2. That the engagement activity and informed service development be noted.

20 **Additional Voluntary Contributions Review**

Simon Taylor, Head of Pensions presented the report on a summary of the review of the Fund's Additional Voluntary Contribution (AVC) arrangements and the proposed changes to ensure they provide good value and options for members.

Malcolm Cantello (Unison) reported that the Fund previously had two providers of AVCs for its members. He asked whether the provision in the market enabled the Fund to offer an additional AVC provider to scheme members. The Head of Pensions reported that there are other alternatives. As part of the AVC review, consideration had been given to whether the Fund should have a second provider.

Rachel Brothwood, Director of Pensions added that the Fund had just under 5000 members who currently participate with the AVC arrangements. Part of the review of the arrangements was to challenge the current provider on a range of aspects including cost. Following responses to this and review of the market providers suitable for an LGPS fund, the Fund was not looking to extend the number of providers at this stage

Resolved:

1. That the proposed changes to the default fund and investment options provided to members who hold Additional Voluntary Contribution accounts with the Fund's provider Prudential, as summarised in section 4 of the report be approved.
2. That the work undertaken to monitor, review and enhance the arrangements for members with Additional Voluntary Contribution accounts be noted.
3. That the update in relation to the Equitable Life legacy additional voluntary contributions arrangement, with communications set for issue to members in coming months be noted.

21 **Exclusion of the press and 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 items of business as they involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act.

Part 2 - items closed to press and public

22 **Investment Strategy and Activity Update**

Jill Davys, Assistant Director - Investments and Finance reported on the key points from the update report on investment strategy and activity in the West Midlands Pension Fund (WMPF) and West Midlands Integrated Transport Authority Pension Fund (WMITA PF) over the last quarter; on the product development plan and launches of LGPS Central Ltd sub-funds and arrangements for the Fund to transition assets. A summary of the key features and proposed response to the recent Minister for Housing, Communities and Local Government (MHCLG) consultation on draft statutory guidance on investment pooling was shared and discussed. A deadline of 28 March 2019 had been set for responses to be received.

Members of the Committee were invited to feedback any comments. The Director of Pensions informed the Committee that the reaction to the consultation had been mixed. It was an informal consultation that it was anticipated would be developed, pending responses, into updated statutory guidance.

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 Factor Based Low Carbon Equity sub-fund as appropriate be reconfirmed.

2. That the delegation to the Director of Pensions and Assistant Director - Investments and Finance to agree the arrangements for participation in an LGPS Central Ltd Infrastructure sub-fund as appropriate be reconfirmed.
3. That the update on investment strategies for the main Pension Fund and the WMITA Fund be noted.
4. That highlights of recent activity within the Pension Fund be noted.
5. That progress on the development of the sustainable equities mandate be noted.

23 **LGPS Central Ltd Shareholder Update**

Rachel Brothwood, Director of Pensions presented the update on LGPS Central Shareholder activity and on a summary of the outcomes of the Shareholder Forum and General Company meeting in February 2019.

Jill Davys, Assistant Director - Investments and Finance responded to a question from Malcolm Cantello (Unison) regarding two sub funds/mandates referred to in the Asset Transfer Plan appended to LGPS Central's Strategic Business Plan.

Resolved:

1. That the strategic business plan and operating budget for 2019/2020 approved for LGPS Central Limited be noted.
2. That observations from the Company's first year and deliverables set for 2019/2020 be noted.
3. That items approved by Shareholders in relation to the appointment of the new Chief Executive, remuneration, pay increases and appointment of Non-Executive Directors be noted.

24 **Procurement**

Amy Regler, Head of Operations reported on progress with the programme of work to procure key professional services and advisors, which included the selection of 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 Chair asked how the appointment of a Hybrid Mail provider would affect the current delivery of the Fund's printing and mailing functions, and the level of interest expressed by local authorities in the contact. The Head of Operations reported that the service was currently delivered in-house and the proposal was for it to be outsourced and to deliver a reduction in overall costs per year. The Fund had engaged with local authorities in the region on their print operations ability and capacity to deliver on the Fund's requirements. The proposed contract would be for a two-year period with the option to extend the contract for a further two years.

Resolved:

That the progress made with procurement activities and the appointment of a number of key providers and advisers be noted.

25

West Midlands Integrated Transport Authority Fund

Rachel Brothwood, Director of Pensions updated the Committee on 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 Department's (GAD's) recommendation to the Ministry of Housing, Communities and Local Government (MHCLG), that the Administering Authority develop a plan to address the employer-risk inherent within the closed WMITA PF.

The due diligence work on the proposal had not raised any material barriers to date. The Director drew the Committee's attention to the outcomes envisaged following informal discussion with key stakeholders about the proposal. Statutory consultation on final proposals would be undertaken prior to completion.

Resolved:

1. That authority be delegated to the Director of Pensions in consultation with the Chair of Pensions Committee to complete a review of the final application to the Ministry of Housing, Communities and Local Government (MHCLG), subject to receiving necessary assurance that the merger meets the criteria set by the Pensions Committee in September 2018.
2. That development of a draft application to MHCLG following dialogue with key stakeholders on the potential merger of the West Midlands Integrated Transport Authority Pension Fund with the West Midlands Pension Fund resulting from recommendations made by the Government Actuary Department in the Section 13 report on LGPS scheme funding be noted.

CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report title	Appointments and Dates and Times of Meetings 2019/2020	
Originating service	Governance	
Accountable employee(s)	Dereck Francis Tel Email	Democratic Services Officer 01902 555835 dereck.francis@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendations for decision:

The Committee is recommended to:

1. Note that in accordance Constitution of the Fund, the City of Wolverhampton Council at its Annual Meeting on 15 May 2019 appointed Councillor Stephen Simkins as Chair of the Pensions Committee and Councillor Milkinder Jaspal as Vice-Chair of the Committee for the 2019/2020 Municipal Year.
2. Confirm the appointment of the Trades Union representatives onto the Committee for the Municipal Year 2019/2020:
 - Martin Clift and Ian Smith - Unite
 - Malcolm Cantello – Unison
3. Confirm the following dates and times of meetings of the Pensions Committee and Pensions Board for the Municipal Year 2019/2020:

Pensions Committee - 10 am

25 September 2019
11 December 2019
25 March 2020

Pensions Board - 2pm

2 July 2019
22 October 2019
21 January 2020
28 April 2020

1.0 Purpose

- 1.1 To receive the nomination from City of Wolverhampton Council for the post of Chair and Vice-Chair to the Committee.
- 1.2 To receive the nominations from the Trades Unions for observer representatives to serve on the Pensions Committee for the Municipal Year 2019/2020.
- 1.3 To agree the dates and times of meetings of the Committee and the Pensions Board for the Municipal Year 2019/2020.

2.0 Chair and Vice-Chair of the Committee

- 2.1. The Constitution of the Fund requires that the City of Wolverhampton Council (the Scheme Administering Authority) at each Annual Meeting appoint a Chair and Vice-Chair of the Pensions Committee.
- 2.2 At its Annual Meeting on 15 May 2019 the City of Wolverhampton Council appointed Councillor Stephen Simkins as Chair of the Pensions Committee and Councillor Milkinder Jaspal as Vice-Chair of the Pensions Committee for the 2019/2020 Municipal Year.
- 2.3 The Committee is asked to note the appointments.

3.0 Appointment of Trades Union observer representatives

- 3.1 Following receipt of nominations from the Trades Unions, the Committee is asked to confirm the appointment of the following four trade union observer representatives on the Pensions Committee for the 2019/2020 Municipal Year:
 - Martin Clift and Ian Smith – Unite
 - Malcolm Cantello – Unison
- 3.2 The union GMB have advised that they do not wish to appoint an observer representative for the Committee for this municipal year, therefore that seat currently remains vacant. The Fund is currently considering how it wants to proceed with this vacancy.

4.0 Dates and times of meetings for 2019/2020

- 4.1 The Committee are asked to approve the following dates and times of meetings of the Committee and Board for the remainder of the current Municipal Year:

Pensions Committee - 10 am
25 September 2019
11 December 2019
25 March 2020

Pensions Board - 2pm
2 July 2019
22 October 2019
21 January 2020
28 April 2020

5.0 Financial implications

5.1 The report has no financial implications.

6.0 Legal implications

6.1 There are no legal implications contained in this report other than referred to above.

7.0 Equal opportunities implications

7.1 This report has no direct implications for the Council's Equal Opportunities Policy.

8.0 Environmental implications

8.1 This report has no direct environmental implications.

9.0 Human resources implications

9.1 This report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report has no direct corporate landlord implications

11.0 Schedule of background papers

11.1 Nil

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report title	Internal Audit Annual Report 2018 - 2019	
Originating service	Pension Services	
Accountable employee(s)	Amanda McDonald	Client Lead Auditor
	Tel	01902 550411
	Email	Amanda.mcdonald@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Committee is asked to note:

1. The internal audit report for 2018-2019.

1.0 Purpose

- 1.1 To provide Committee with the outcome of the work programme for internal audit for 2018-2019.

2.0 Background

- 2.1 The purpose of internal audit is to provide the Director, Section 151 Officer and Pensions Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Fund's agreed objectives. In order to provide this opinion, audit are required to review risk management and governance processes.
- 2.2 At its meeting in March, Committee were presented with the Internal Audit work programme which outlined the focus of this work for the year 2019-20.

3.0 Internal Audit Annual Report 2018-19

- 3.1 A copy of the outcome report is attached at Appendix A.
- 3.2 The report confirms that no significant audit issues have arisen throughout the year and most importantly, where identified weaknesses / improvements have been identified during the course of audit work, management have agreed recommendations.

4.0 Financial implications

- 4.1 There are no financial implications

5.0 Legal implications

- 5.1 Outlined in the report and appendix

6.0 Equalities implications

- 6.1 There are no implications

7.0 Environmental implications

- 7.1 There are no implications

8.0 Human resources implications

- 8.1 There are no implications

9.0 Corporate landlord implications

- 9.1 There are no implications

10.0 Schedule of background papers

10.1 Report to Pensions Committee 20 March 2019 - Internal Audit Plan 2019-2020.

11.0 Appendices

11.1 Appendix A: Internal Audit Annual Report 2018-2019

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Internal Audit Annual Report 2018-2019



Introduction

Our internal audit work for the period 2018-2019 was carried out in accordance with the Internal Audit Plan. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of West Midlands Pension Fund's (the Fund) governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the Fund's assurance framework, which supports the City of Wolverhampton Annual Governance Statement and WMPF annual report. This is only one aspect of the assurances available to the Fund as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Fund may rely, could include:

- The work of the external auditors;
- Statutory policies and plans;
- Compliance reviews;
- The results of any quality accreditations;
- Other pieces of consultancy or work designed to alert the Fund to areas of improvement;
- Other external review agencies

As stated above, the framework of assurance comprises a variety of sources and not only the Fund's internal audit service. However, Internal Audit holds a unique role as the only independent source of assurance on all internal controls. Internal Audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the Fund's risks and its overall whole control environment but also all sources of assurance. In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance.

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Overall Assurance

As the providers of internal audit to the Fund, we are required to provide the Managing Director, Director of Pensions and Section 151 Officer with an opinion on the adequacy and effectiveness of the governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Managing Director, Director of Pensions and Section 151 Officer is reasonable assurance that there are no major weaknesses in the Fund's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2019.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit

Internal audit opinion

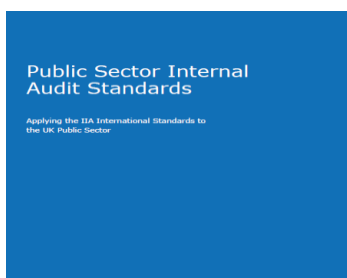
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in the paragraph above, our opinion is as follows:

Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Fund by other providers as well as directly by Internal Audit, Internal Audit can provide **reasonable assurance** that the Fund has adequate and effective governance, risk management and internal control processes.

In reaching our opinion, the following factors were taken into consideration:

- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year.

Compliance with the Public Sector Internal Audit Standards



The internal audit service follows the Public Sector Internal Audit Standards.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review. The responsible employee will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Summary of audit reviews completed

The following internal audit reviews were completed during 2018-2019:

Auditable area	Date	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
<p>Annual Benefit Statements</p> <p>The audit examined processes to ascertain whether appropriate actions were taken to facilitate the accurate and timely issue of annual benefit statements.</p>	November 2018	-	2	4	6	6	Satisfactory
<p>GDPR Review</p> <p>Following the introduction of the General Data Protection Regulation (GDPR) in May 2018, a review was undertaken to provide assurance that the controls and procedures implemented were fully embedded within the Fund and operating effectively.</p>	October 2018	-	-	5	5	5	Satisfactory
<p>Members Communications</p> <p>The audit focused on ensuring that the Fund was providing information to members in accordance with legislative and regulatory timescales.</p>	January 2019	-	-	2	2	2	Substantial
<p>Payroll</p> <p>A review of the Fund's pensions payroll system was undertaken.</p>	November 2018	-	-	2	2	2	Substantial

Auditable area	Date	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
<p>Review of Pensions Administration Strategy</p> <p>The audit examined the Fund's internal review of the PAS, undertaken in early in 2018. The review focussed on the roles and responsibilities of both employers and the Fund, and the associated performance measures.</p>	March 2018	-	2	6	8	8	Satisfactory
<p>Transfer of Assets</p> <p>An audit review of the initial transfer of assets was undertaken. Investments valuing £5.2 billion were transferred from the Fund to LGPSC. This represents approximately a third in value of the Fund's total net assets.</p>	February 2019	-	-	4	4	4	Substantial
<p>Trustee Governance Arrangements</p> <p>An audit of trustee governance arrangements provided assurance that the Fund has appropriate controls and procedures in place and adheres to the Constitution, internal policies and regulatory guidance</p>	April 2019	-	-	5	5	5	Substantial

Key Financial Systems Work

A full review of the controls within the payroll system has been completed. We also reviewed the high-level controls for the calculation of benefits. We evidenced robust systems and the continuous application of internal controls. Overall, we provided a substantial level of assurance for this work.

Follow up Reviews

A review of recommendations made as part of the 2017/2018 internal audit programme confirmed that all actions had been appropriately implemented or were in the process of being implemented.

Consultancy / ad hoc work

- Internal audit has completed 33 financial appraisals on behalf of the Fund during the year. These are undertaken when an organisation is seeking to obtain admitted body status and establishes whether an organisation will, or will not be able to meet its financial obligations to the Fund.
- In accordance with the Cabinet Office requirements, internal audit continues to be the Fund's key contact for the National Fraud Initiative. In addition, advice and support is provided throughout the year when requested.
- We have worked closely with the Pool's Partner Fund audit teams and with LGPS Central to develop an appropriate assurance framework. This work is still ongoing and will continue throughout the new financial year.
- We have provided advice and consultancy to the Fund as required and liaise with the Fund's compliance team with regards to risk and ongoing issues.
- In addition, we have provided ongoing support to the Fund's external auditors throughout the year.

CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report title	Governance Update Report	
Originating service	Pension Services	
Accountable employee(s)	Rachel Howe	Head of Governance and Corporate Services 01902 552091
	Tel	Rachel.Howe@wolverhampton.gov.uk
	Email	
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Committee is recommended to:

1. Approve the Training Policy developed for members of the Fund's governing bodies.

Recommendations for noting:

The Committee is asked to note:

1. The top ten risks for this quarter and their movement
2. The quarterly compliance monitoring
3. Updates on the current regulatory environment within the LGPS
4. Completion of the Fund's voluntary engagement with the Pensions Regulator, assisting development of knowledge and understanding of governance in practice for the LGPS
5. The training hours of the Pension Committee due to be published in the Fund's Annual report and accounts.

1.0 Purpose

- 1.1 To provide Committee with an update on the work of the Fund to deliver a well governed scheme and to note the current regulatory environment in which the Fund operates.

2.0 Pension Committee 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 to support and enable policy decision and oversight of implementation, where delegated.
- 2.2 While there is no formal statutory requirement for Pension Committee members to undertake training (Local Pension Boards do have a legal duty to complete 22 hours training), the Fund complies with the expectations of the Chartered Institute of Public Finance and Accountancy (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. Recognising the importance of training in the developing landscape of the Scheme, at its meeting in March 2019, the Committee agreed that training should be added to the role of Pensions Committee within the Fund's Governance Compliance Statement.
- 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 the Local 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 members with a view to developing a programme that supports both an introductory and progressive knowledge base.
- 2.5 The Committee are asked to consider and approve the training policy, included at appendix A, which will be reflected in the Committee's Terms of Reference.

3.0 Risk Register

- 3.1 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 that are 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. The reporting period for risks is the most current quarter (December to March) and this monitoring is looked upon as both a reactive and proactive process to ensure emerging risks are identified quickly and action taken to address, as required.

3.2 The Fund’s full risk register for this quarter 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				

3.3 Since conducting the end of quarter review, the Fund has not identified any further movement in the risks. At the quarter end, 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 next quarter following confirmation of changes in membership and completion of the Fund’s annual induction training.

3.4 Further to the review, the key risks register is included at appendix B, providing the assurance to Committee of the controls in place to protect the Fund.

4.0 Compliance Monitoring

4.1 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 of 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 submission 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.

4.2 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. Committee will recall the work undertaken by the Fund to procure the hybrid mail solution, as reported in procurement updates provided in previous meetings. None of the breaches were required to be reported to the Information Commissioner.

5.0 Regulatory Updates

5.1 Cost Management Review

Further to the update presented to Committee at its March meeting, the Scheme Advisory Board issued guidance in May on the approach funds should take in the assessment of liabilities for the 2019 valuation, following the pause in the Cost Management process and review of changes to scheme benefits with effect from 1 April 2019, pending the outcome of the McCloud court case.

The changes could have significance in LGPS Funds' valuations which are required to assess and determine the liabilities of pension funds and their ability to meet the cost of paying pension benefits. At the time of pausing the changes, a package of improvements costing an average of 0.9% of payroll had been recommended. Depending on the profile of the membership of individual LGPS employers, the impact on contributions could have varied widely and guidance was sought from the Scheme Advisory Board on how Funds should account for this change as part of the 2019 valuation. The potential impact on all public service pension schemes is significant should the 2018 Court of Appeal's finding that protections for those within 10 years of retirement are unlawful be upheld. If, however, the finding is not upheld then the cost cap process will restart.

Guidance from the Scheme Advisory Board has stated that if no outcome from McCloud is known by 31 August 2019, funds and their actuaries should consider liabilities under the current regulations and scheme benefits, noting the expectation that the Scheme cost may rise in future. West Midlands Pension Fund will be working closely with its Actuary,

Barnett Waddingham to consider any potential outcome as it moves forward with the 2019 Actuarial Valuation and commences its engagement programme with Fund employers.

5.2 Employee exit payments

Committee will recall the proposal by Government to implement a £95,000 cap on payments to individuals who leave public sector employment with a view to reducing the burden on the public purse.

The cap is proposed to cover all payments and include the calculation of the employer strain costs on pension payments where an individual leaves employment and is entitled to receive their (often unreduced) pension benefits.

In April 2019, the Government launched a consultation on the proposals which have been criticised for capturing those individuals with long-term service earning average salaries. The consultation closes on 3 July 2019 and the Fund will be considering the proposals and the questions posed in its response.

5.3 LGPS Actuarial Valuation cycle

West Midlands Pension Fund, in line with LGPS Regulations currently undertakes a local triennial valuation to assess its funding level and future levels of contributions required from employers.

In May, government issued a consultation proposing to move this valuation cycle to every four years with the ability to conduct an interim valuation where there has been significant change between valuation cycles. Also proposed, is the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted if circumstances change.

The Fund will be working with its Actuary, Barnett Waddingham to understand the implications of the proposals and will keep employers informed of the consultation.

5.4 Good Governance in the LGPS

Previously referred to as the "Separation Review", the Scheme Advisory Board appointed Hymans Robertson to look at a range of options which may support governance arrangements for individual Funds within the LGPS, noting that the separation of LGPS Funds from their Administering Authority is not the intended outcome, with any degree of separation considered retaining local authority control.

Speaking at the PLSA (Pensions and Lifetime Savings Association) conference in May, the Scheme Advisory Board (SAB) set out their intention for the review in assisting LGPS Funds to ensure their ability to meet statutory requirements on good governance which included the ability to adequately resource their funds to deliver pension benefits for their members.

SAB have outlined their key considerations/criteria for the review which include avoiding the risk of conflict where officers in administering authorities conduct two, sometimes conflicting roles. In addition, SAB is considering the representation and standards of decision-making bodies in the LGPS, which may include the requirement for statutory training and knowledge requirements of those charged with decision making (elected members and officers).

As reported to Committee in March, the Fund participated in an initial fact find with Hymans Robertson and has issued a response to the survey. Hymans will be presenting their findings to SAB in July, following which SAB may make recommendations to MHCLG (Minister for Housing, Communities and Local Government).

6.0 Engagement with the Pensions Regulator

- 6.1 Since taking on responsibility for Public Sector Pension Schemes in 2014, the Pensions Regulator (tPR) 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.
- 6.2 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.
- 6.3 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.
- 6.4 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.
- 6.5 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.

7.0 Pension Committee Training Hours

- 7.1 In line with CIPFA guidance, the Fund is required to publish details of the training and attendance hours of its Pension Committee and Local Pension Board.

- 7.2 Overall, the training hours for the Pensions Committee increased by 24% compared to the 2017-18 democratic year closing on a total of 1069.25 hours. A copy of the Committee's training hours for 2018-19 can be found at appendix C.
- 7.3 Members undertook a range of different training opportunities that were delivered by both Fund Officers and external specialists and included the following:
- Fund events including the AGM and MYR
 - Annual LAPFF Conference
 - Tour of Properties invested in by the Fund
 - 2-day structured off-site training
 - LGPS Central Ltd Annual Stakeholder day
 - Regular media round up updates
 - Quarterly training delivered following meetings, covering topics including UK Economy, Sustainable Investing, Climate Change and the Government Actuary Department (GAD) Section 13 review of LGPS funding valuations.

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 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 There are no implications

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 Regulatory Update report to Committee, March 2019
<https://wolverhamptonintranet.moderngov.co.uk/documents/s103930/Regulatory%20Update.pdf>
- 14.2 Scheme Advisory Board guidance on the cost management review and application of McCloud in the 2019 valuation
<http://www.lgpsboard.org/images/Other/Advice from the SAB on McCloud May 2019.pdf>
- 14.3 Government consultation on the £95K cap
<https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector>
- 14.4 LGPS Valuation cycle consultation
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf
- 14.5 Scheme Advisory Board Good Governance Review
https://www.lgpsboard.org/images/PDF/Options for separation Instructions for bidders_20180820.pdf
- 14.6 Procurement report to Committee, March 2019
<https://wolverhamptonintranet.moderngov.co.uk/mgConvert2Pdf.aspx?id=103862&OrigUrl=documents%2fs103862%2fprocurement.pdf&TPID=1813913&>

15.0 Schedule of Appendices

- 15.1 Appendix A: Pensions Committee and Pensions Board Training Policy 2019
- 15.2 Appendix B: Risk register
- 15.3 Appendix C: Pensions Committee Training Hours 2018-19

(draft) PENSIONS COMMITTEE AND PENSION BOARD TRAINING POLICY 2019

1.0 BACKGROUND

- 1.1 The West Midlands Pension Fund aims to achieve good standards of governance in line with or exceeding best practice and supported by its established governing bodies and their appointed advisers:
- Pensions Committee
 - Local Pensions Board
 - Trade union representation and provision of information
 - Advisors and officers

Details of how these four elements function and operate to ensure they are effective are set out in the Fund's Governance Compliance Statement.

- 1.2 The Fund is required by regulation and statutory guidance to ensure that those individuals who undertake a role as part of one of the four elements of good governance have an appropriate level of knowledge and understanding to enable them to exercise their function in the role that they are appointed to perform.
- 1.3 This policy is written to comply with such regulation, namely section 248 of the 2004 Pensions Act and section 248a of the 2013 Public Service Pensions Act. It also is written in consideration of the Pension Regulators (tPR) Code of practice no. 14 (Governance and administration of public service pension schemes) and the Scheme Advisory Board's statutory guidance which all relate directly to the role of Local Pension Boards.
- 1.4 As noted in the guidance from the Scheme Advisory Board for the LGPS (England & Wales), the legal requirement for knowledge and understanding for members of a Local Pension Board does not apply to members of a Pension Committee. However, the requirement serves as a useful benchmark for the knowledge and understanding that a member of a decision-making Pension Committee should have.

2.0 SKILLS REQUIREMENTS

- 2.1 The 2004 Act requires members to be conversant with:
- the rules of the LGPS, in other words the Regulations and other regulations governing the LGPS;
 - any document recording policy about the administration of the Fund; and
 - to have knowledge and understanding of the law relating to pensions.

Legal responsibilities begin from the date of appointment, with the knowledge and understanding requirements applying to every individual member of a Local Pension Board rather than to the members as a collective group.

In developing a programme to support development of relevant skills and knowledge the Fund applies the CIPFA Knowledge and Skills Framework to its training policy and programme. The CIPFA knowledge framework was created to help ensure that training is delivered effectively and efficiently by identifying and focusing on key knowledge areas.

Appendix A

2.2 Seven areas of knowledge and skills have been identified as core technical requirements for those Members associated with LGPS pension funds:

- pensions legislation and governance context
- pensions administration
- pension accounting and auditing standards
- financial services procurement and relationship management
- investment performance and risk management
- financial markets and products knowledge
- actuarial methods, standards and practices

The Fund recognises that members of the Pensions Committee and Local Pension Board should individually develop the knowledge and understanding required, as outlined within the above seven areas to undertake their role, however it is not the intention that they become technical experts. They should have the ability to contribute effectively to collective discussion and decision making and have the confidence to question and challenge the information and advice that they are presented with.

To ensure that adequate coverage and depth of each of the seven topics is achieved, the Fund has developed a training plan that addresses all elements of the CIPFA Knowledge and Skills framework over a rolling 2-3 year period. Delivered through structured training events, this rolling programme ensures that knowledge is developed progressively.

2.3 Following the creation of investment pooling, the CIPFA knowledge and skills framework has been expanded to include additional competencies for representatives of LGPS Funds to reflect their role in the implementation of investment pooling. The Fund has updated its training programme to include such elements.

The Fund's structured training plan is supported by a number of additional training sources that members can access to develop their knowledge and skills. Examples include:

- Self-reading of a range of financial, pension related publications
- Online webinars hosted by industry experts (such as AON Hewitt, Barnett Waddingham and Eversheds Sutherland).
- Local Industry events relevant to the pensions sector.

2.4 The Fund reports in its annual report and accounts details of the knowledge and skills development undertaken by members of the Fund governing bodies, which includes the reporting of individual training hours recorded and attendance at structured training events.

3.0 POLICY

3.1 Upon joining the Pensions Committee or the Local Pensions Board, new Members will be invited to attend an in-house induction training session facilitated by Pension Fund Officers. This will provide an overview of their role, the associated responsibilities and an update on key policies together with current policy matters to facilitate informed participation in discussion and decision-making.

Appendix A

- 3.2 Committee and Local Board members are requested to commit to undertaking minimum training requirements each year as part of fulfilling their obligation in supporting good governance. Training guidelines are developed based upon length of service on the Committee or Local Board and are intended to encourage members to attend opportunities as follows:

New Members (First Year and as a refresher in the Fifth Year of membership)

- Induction
- Completion of all online tPR Trustee Toolkit Modules
- Mid-Year Review (MYR) and/or Annual General Meeting (AGM)
- Two in-house structured training days
- One National Conference (Committee members only)
- Quarterly pre/post meeting training sessions

Second Year of Membership

- Induction
- Mid-Year Review (MYR) and/or Annual General Meeting (AGM)
- Two in-house structured training days
- One National Conference (Committee members only)
- Quarterly pre/post meeting training sessions

Third Year onwards of Membership

- Mid-Year Review (MYR) and/or Annual General Meeting (AGM)
- Two in-house structured training days
- One National Conference (Committee members only)
- Quarterly pre/post meeting training sessions

- 3.3 Members will also have the opportunity to build their knowledge and skills through other training opportunities offered by the Fund and additional support will be provided to any member seeking more advanced or specialist interest knowledge development. Members are encouraged to undertake independent reading to support in their development of knowledge in relation to current events within the pensions industry. This independent reading is supported by the production of a regular media round-up produced by Fund Officers.

Development is also supported through the facilitation of quarterly training sessions that are held on the same day as Committee and Local Board meetings with the aim of providing further consideration of a topic that is also covered on the meeting agenda.

- 3.4 Individual training records will be maintained by the Governance Officer for each member to enable quarterly monitoring and annual reporting.
- 3.5 Periodically, themed training or off-site visits may be undertaken to support building the skills and knowledge of members of the Committee, often in specific areas (for example, property investment). Meetings outside of the West Midlands are made on an 'as required' basis, aimed at addressing specific training needs and/or providing opportunity for more in-depth discussion on key issues with the agenda developed in consultation with the Chair.
- 3.6. Where training is delivered on a specialist topic, the Fund may invite external speakers to deliver sessions to the Pensions Committee or Local Pensions Board.

Appendix A

- 3.7 To facilitate a robust training plan, the Fund allocates an annual budget to cover the cost of member training. This budget is monitored by the Director of Pensions, and where required, allocation of spending in regard to conference places is undertaken in consultation with the Chair of each governing body.

June 2019

Appendix B- West Midlands Pension Fund - KEY RISKS

Mar-19

Risk ID		Risk Description	Risk Rating	Movement from Last Qtr / Positions	Last Reviewed	
POOLING						
P3	Pooling	Transition timeline slips causing additional cost/resource on the fund	16		No Change	
		Controls				<ul style="list-style-type: none"> > Transition plan is monitored and regularly updated to pension committee > Robust Client Services Agreement and Contract Management of LGPSC
P4	Pooling	Investments not reflecting Funds investment strategy putting investment returns at risk	16		No Change	
		Controls				<ul style="list-style-type: none"> > Assurance of Investment managers mandate monitoring and adherence > Analysis of performance against Fund's objectives; Quarterly reporting; regular dialogue with LGPSC > Pension committee review and approve investment strategy > Investment working group of PAF effective in feeding requirements back to LGPSC
P6	Pooling	Resourcing - Staff transition to LGPC leaving insufficient resources to manage legacy assets	15		No Change	
		Controls				<ul style="list-style-type: none"> > Client Service agreement with LGPSC to provide services to cover management of legacy assets > Resourcing within Fund to oversee CSA > Retain Expertise within the Fund.
INVESTMENTS						
I2	Investments	Fund does not achieve investment returns in line with longer term strategic objectives to meet funding objectives	16		No Change	
		Controls				<ul style="list-style-type: none"> > Diversified portfolio > Regular reviews of asset allocation/investment strategy > Monitoring of investment managers quarterly. > Regular monitoring of market conditions.
I7	Investments	Brexit uncertainty	15		No Change	
		Controls				<ul style="list-style-type: none"> > Currency hedge is currently applied for 50% of foreign currency exposure thus protecting on the downside > The Fund has a diversified investment portfolio allocated through strategic risk assessment of global markets. > Stress testing of the Fund's investments have been undertaken to ensure the Fund is able to withstand any impact on markets.
I8	Investments	Climate Change	16		No Change	
		Controls				<ul style="list-style-type: none"> > Engagement with companies to be aware of carbon risks and introduce mitigation > Engagement through LAPFF > Sustainable Equity Strategy > Carbon positive FTSE Index investing > Seek new opportunities in carbon beneficial infrastructure investments
FINANCE						
F6	Finance	Non payment of receipt of monies due to the fund	15		No Change	
		Controls				<ul style="list-style-type: none"> > Monthly monitoring of ongoing (FSR) and deficit (PSD) contribution payments by Finance. Finance are working in conjunction with the Employer and Data Teams through monthly submissions with more analysis, reviews and feedback
F7	Finance	Compliance with new CIPFA Annual Report disclosure requirements	15		No Change	
		Controls				<ul style="list-style-type: none"> > Head of Finance is preparing a schedule of data required for compiling Annual Report under new guidance
GOVERNANCE						
G2	Governance	The Fund is unable to meet its statutory requirements on Data Quality	16		No Change	
		Controls				<ul style="list-style-type: none"> > The fund has implemented a data improvement strategy to enable effective monitoring of its data quality > Systems team continue to develop reporting in UPM on the common and conditional data requirements
G4	Governance	Change in Committee and Pension Board structure	16		No Change	
		Controls				<ul style="list-style-type: none"> > Induction training provided to new members joining Pension Committee and Pension Board > Annual training plan in place for all members drafted with the CIPFA code of practice > Code of conduct covering members training hours requirements > Conflicts of Interest Policy for Pension Committee and Pension Board Members > Rotation of nominations of mebership on Pension board and pension committee
G9	Governance	Change in government policy/LGPS reforms	16		No Change	
		Controls				<ul style="list-style-type: none"> > The Fund keeps abreast of developments, participating in consultation and calls for evidence, and collaborating with other funds
G11	Governance	Adequate governance framework for pooling	16			
		Controls				<ul style="list-style-type: none"> > LGPS Central follows Statutory Legislation and Guidance from CIPFA/SAB/MHCLG > The Fund ensures robust governance oversight of the LGPSC Ltd via COGG (Client Oversight Governance Group) > Internal Audit oversight via the Partner Funds Internal Audit Functions linking in with COGG > Reporting requirements to be established with the Company via an SLA with KPI monitoring
OPERATIONS						
OP4	Operations	Failure to adhere to statutory regulatory requirements	20		No Change	
		Controls				<ul style="list-style-type: none"> > Technical team in place to translate regulations and working group to review and discuss impacts of any changes > Robust testing process for any system changes > Work with other Pension Funds to develop understanding i.e. Civica Technical Group and SPOG > Project management for the delivery of key changes and Statutory requirements and regulations i.e. benefit statements > Monitoring of KPI's and performance against disclosure
PENSION SERVICES						
PA1	Pension Services	Pension Administration Strategy (PAS) not complied with by employers	16		No Change	
		Controls				<ul style="list-style-type: none"> > Communication with employers at the Annual General Meeting (AGM) to ensure they understand the PAS and their requirements under it > Employers adherence to the PAS is monitored > PAS regularly reviewed by committee > Reports produced for all employers highlighting issues with data files. Regularly meetings with districts to review progress and all other employers have been assigned a "data guru" who will be responsible and the main point of contact for any issues or queries

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PENSIONS COMMITTEE 2018/2019 - SUMMARY OF TRAINING HOURS

ATTENDEES	IN HOUSE STRUCTURED	TRUSTEE TOOLKIT Completed/number of units completed/to be completed	EXTERNAL CONFERENCES & SEMINARS	ON-LINE TRAINING AND READING	AGM & MYR	TOTAL HOURS*
Cllr H Bagri	26.00		22.00	0.00	4.00	52.00
Cllr A Butt	15.00		15.00	0.00	4.00	34.00
Cllr I Brookfield	29.00		47.00	34.00	6.00	116.00
Malcolm Cantello	39.50		35.00	78.00	8.00	160.50
Cllr A Underhill	21.00		7.00	0.00	0.00	28.00
Cllr P Lowe	0.00		0.00	0.00	0.00	0.00
Martin Clift	0.00		5.00	26.00	8.00	39.00
Cllr S Hevican	30.00		15.00	0.00	4.00	49.00
Cllr K Inston	30.00		37.00	10.00	4.00	81.00
Cllr J Jaspal	34.00		38.00	0.00	4.00	76.00
Cllr M Afzal	20.00		15.00	0.00	4.00	39.00
Cllr S Simkins	35.00		16.50	0.00	4.00	55.50
Cllr J Mutton	8.00		0.00	15.25	0.00	23.25
Cllr C Simm	40.00		15.00	0.00	0.00	55.00
Cllr A Sandison	21.00		15.00	0.00	4.00	40.00
Cllr P Singh	32.00		32.00	4.50	0.00	68.50
Cllr J Stevenson	32.00		10.00	0.00	0.00	42.00
Ian Smith	2.00		15.00	0.00	4.00	21.00
Cllr P Sweet	2.00	0.00	0.00	0.00	0.00	2.00
Janice Wadrup	8.50	0.00	5.00	0.00	4.00	17.50
TOTAL	455.00	0.00	350.50	197.75	66.00	1069.25

*Total Hours also includes those hours accumulated by members who have left during the year

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report title	Annual Report of the Local Pensions Board	
Originating service	Pension Services	
Accountable employee(s)	Rachel Howe Tel Email	Head of Governance and Corporate Services 01902 552091 Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel: Email:	Director of Pensions 01902 552091 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for noting:

1. The Committee is asked to note the report.

1.0 Purpose

- 1.1 To provide feedback to the Committee on the work undertaken by the Local Pensions Board (“the Local Board”) during 2018/19 and to meet the legislative requirement for producing an annual report.

2.0 Background

- 2.1 The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.
- 2.2. The West Midlands Pension Fund created and implemented the Local Board ahead of the deadline of 1 April 2015 and has since developed an appropriate training programme and annual workplan in consideration of matters relevant to the Fund and the role of the Board.
- 2.3 In an effort to ensure continued good governance of the Fund, during the 2018/19 year the Fund engaged with the external organisation AON Hewitt to undertake a review of its governance arrangements. The review was undertaken in addition to the Local Board’s own annual review of the Terms of Reference, considering the development of practice across the LGPS, to ensure that they remain effective and relevant to their undertakings as a statutory board.
- 2.4 Key changes to the Terms of Reference included:
- Increasing the frequency of meetings to a minimum of four per year
 - Reducing the meeting quorum to four
 - Clarified expectations for meeting attendance and training- members are expected to attend a minimum of 2 meetings per year, one structured training event and attain at least 22 hours training per year.
- 2.5 Annually, the Local Board also consider their workplan for the coming year. A copy of the Local Board’s workplan for the 2019/20 year, approved in January 2019, is attached at Appendix A and aims to reflect the areas of focus for the LGPS over the coming year, together with the statutory duties of the Fund in its compliance with being a well governed Fund.

3.0 Board Membership and Governance

- 3.1 During the democratic year the Local Board saw some movement in its membership with vacancies emerging for two-member representatives (now filled) and two employer representatives with one vacancy remaining under application with the relevant employer group due to be appointed in advance of the Local Board’s first meeting of the year in July 2019.
- 3.2 Following the Governance review by AON, the Fund has reviewed and revised its conflicts of interest policy for managing conflicts across the Fund (noting elected councillors have their code of conduct and public sector duties). This policy will be

presented to the Board for approval at their meeting in July and seeks to address the requirements of the Pension Regulator's Code of Practice 14 on managing conflicts of interest within the LGPS.

4.0 Training

- 4.1 The Fund has offered a number of training opportunities for Board members and, where possible, training has been delivered on the same day as Board meetings to maximise attendance and to support the delivery of topics relevant to the reporting that the Board were due to receive.
- 4.2 The Fund also endeavours to deliver joint training opportunities with the Pensions Committee to strengthen relationships across the two governance bodies. This year, in addition to the Fund's Mid-Year Review and AGM, the Local Board joined Committee members at the stakeholder event held by LGPS Central together with a joint training day in November 2018. Further joint events will be delivered during 2019-20.
- 4.3 All members are encouraged to meet their 22-hour training target to ensure that they obtain the relevant knowledge and skills required to undertake their role on the Board. Attached at Appendix B is a copy of the 2018/19 individual training hours for the Board.

5.0 Reports of the Pension Board

- 5.1 During the 2018/19 year the Board did not refer any matter to the Pensions Committee and continued its focus on Customer Engagement, Data Quality and Service Development, noting the work undertaken by the Fund to develop services available to our members and employers.
- 5.2 The Board continues to engage with their respective groups on these issues and regularly feeds back to their counterparts on key messages of the Fund, including the changes being implemented to ensure continued compliance with regulation and the ongoing development of comprehensive stakeholder engagement.
- 5.3 Throughout the year, the Board considered reports on the following topics:
- Customer Engagement
 - Data Improvement
 - Regulatory Updates within the LGPS
 - Service Development (including Digital Transformation and Exploitation)
 - Funding Management, with a focus on preparations for the 2019 Actuarial Valuation
 - Responsible Investment and Climate Change
 - Investment Pooling
 - Pensions Administration

6.0 National Scheme Advisory Board Update

- 6.1 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.

6.2 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.

6.3 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.

6.4 In comparison, WMPF'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.

6.5 For the West Midlands Integrated Transport Authority Fund it is difficult to use the national 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.

6.6 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 at formal meetings and through the Fund's media round-up communication. Copies of all SAB meeting papers are available on their website www.lgpsboard.org.uk

7.0 Costs

7.1 The cost of operating and supporting the Local Pensions Board is absorbed into the Fund Governance budget and existing officer workload.

7.2 To support the work of the Scheme Advisory Board, all LGPS Funds are required to pay a levy based on membership numbers. For 2017/18 that levy was £24,106 (excluding VAT), which the Fund has paid as due.

8.0 Forward Plan for 2018/19

8.1 In considering the work of the Local Board going forward to ensure the continued good governance of the scheme, the Fund has reviewed the workplan of the Scheme Advisory Board, together with the Pension Regulator's Corporate Plan. Throughout the year the workplan of the Local Board will likely evolve in response to any changes to statutory guidance and in response to any confirmed scheme or regulatory changes emerging during the year. The Local Board themselves may also add items as they review the Fund's governance in line with their statutory duty.

9.0 Financial implications

9.1 As outlined in the report

10.0 Legal implications

10.1 The Fund is required to have a Local Pensions Board as set out in the Public Service Pensions Act 2013 which also required the Fund to produce an annual report on the work of the Board.

11.0 Equalities implications

11.1 There are no implications

12.0 Environmental implications

12.1 There are no implications.

13.0 Human resources implications

13.1 There are no implications

14.0 Corporate landlord implications

14.1 There are no implications

15.0 Schedule of background papers

15.1 Public Service Pensions Act 2013
<https://www.legislation.gov.uk/ukpga/2013/25/contents>

- 15.2 The Pension Regulator's Corporate Plan 2019 – 2022
<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/corporate-plan-2019-2022.ashx>
 - 15.3 LGPS Scheme Advisory Report 2018
<http://lgpsboard.org/index.php/2018-foreword>
 - 15.4 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>
- 16.0 Schedule of Appendices**
- 16.1 Appendix A: Pension Board workplan 2019/20 year
 - 16.2 Appendix B: Local Pension Board individual training hours 2018/19

Pension Board Work Programme 2019/20

The West Midlands Pension Fund Local Pension Board is responsible for assisting the Fund with the good governance and administration of the scheme by ensuring its compliance with the legislation meeting the requirements of the Pensions Regulator and its adherence to statutory guidance.

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.
Good Governance				
	Policy review	To ensure the Fund meets its legislative and best practice duties of publishing statements and policies in line with the attached Pensions Board Policy Review Plan	In line with the attached Pensions Board Policy Review Plan	As noted on the Policy Review Plan.
	Fund Communication	To monitor fund performance on the availability and quality of information produced by the Fund in line with its communications strategy	Each meeting- the Board are to receive an update on delivery against the Fund's customer engagement strategy	Compliance review – to ensure the Fund meets the TPR Code of Practice on communicating with members Best Practice – to ensure the Fund meets its objectives

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.
	Customer Engagement	To monitor the effectiveness of the customer engagement strategy	Each meeting the board will be presented with KPI's to monitor the Fund's performance against its customer engagement strategy. April 2019 – review of feedback and development of engagement strategy for the forthcoming year	Best Practice – to ensure the Fund meets its objectives
	Digital Transformation Program	In response to customer demands for more immediate service delivery and to deliver efficiencies in the Fund's operations	April 2019 – overview of program and key focus areas September 2019 – progress report	Best Practice – to ensure the Fund is responsive to customer's changing needs
	Internal and external audit	To receive a report from the Fund's compliance team reviewing the actions from the previous year's audit plan ensuring their implementation/completion.	April 2019- Board to receive the plans for forthcoming internal and external audits.	Best Practice – to ensure independent recommendations are implemented.

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.
			<p>July 2019- Annual review of completed internal audits for the previous year.</p> <p>September 2019- Review of the work of external audit regarding the Annual Report and Accounts</p>	
	TPR compliance monitoring	To receive a report on the Fund’s compliance monitoring program, in line with the TPR’s expectations.	Annually in Sept 2019 as part of the TPR reporting schedule.	Compliance Review.
	Regulatory and legislative updates	<p>To receive updates on potential changes to regulation and government policy which may affect the LGPS And the Fund.</p> <p>To ensure the Fund is well-positioned to manage those changes.</p>	As required	Compliance review.

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.
Fund administration				
	Data Quality	To monitor the delivery of the Fund's Data Improvement Strategy	January 2019 – to receive an update on the progress of monthly returns and the impact on Data quality at the Fund. July 2019 – Update on the delivery of the Data Improvement Strategy and the delivery for Annual Benefit Statements 2019	Best Practice – to assist the Fund in its management of member data and contributions. Compliance review
	Pension Administration Strategy	To monitor the performance of Fund employers in line with Strategy To monitor the implementation of the strategy including its charging structure.	July 2019- Board to be presented with agreed strategy following consultation	Best Practice
	Actuarial Valuation – Review of Process	To monitor the Fund's preparations for the 2019 Actuarial Valuation including the Fund's approach to	July 2019	Best practice/event driven – to assist in the building of relationships with the employer base.

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.
		managing engagement with employers		
Investment	Investment Strategy and Implementation	To receive updates on the Fund's work in this area, including the development of the LGPS Central pool – governance and asset transition.	Board to be presented with the annual ISS policy review in July 2019 April 2019- Board to be presented with an update on the LGPS Central pool	Compliance review – ensuring the Fund meets its legislative duty to achieve efficient investment returns and meets legislative requirement for investment pooling, adhering to relevant and up to date guidance.
Finance	Annual report and accounts	To consider the Fund's annual report as well as the Scheme Advisory Board report following publication	September 2019, following the audit and approval of the Statement of Accounts and Annual Report	Compliance review – ensuring the Fund meets its legislative duty in the production and publication of an annual report, adhering to relevant and up to date guidance.

West Midlands Pension Board Policy Review Plan 2019/2020

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Governance Compliance Statement*	Head of Governance and Corporate Services	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Compliance – statement of operational governance structure including delegations and meeting arrangements	April 2019
Pensions Administration Strategy*	Head of Pensions	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Compliance – outlining the service standards for the Fund and employers	July 2019 following publication
Funding Strategy Statement*	Head of Pensions	Monitored annually with a full review and update following each triennial valuation	Compliance – to ensure the Fund meets its duty to pay pensions when they fall due	April 2019 (annual review) July 2020 following completion of the valuation process 2019

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Investment Strategy Statement (ISS)	Assistant Director, Investments and Finance	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Compliance – investment strategy and implementation typically reviewed and updated alongside each triennial valuation and also in line with key market influences and world events	July 2019 (annual review) July 2020 following completion of the valuation process 2019
Responsible Investment Statement*	Assistant Director, Investments and Finance	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Best Practice – outlines Fund beliefs and approach to integration with investment strategy. Supplements the ISS	July 2019
Compliance with the Stewardship Code for Institutional Investors	Assistant Director, Investments and Finance	Annually	Best Practice – the Fund’s supports and seeks to apply principles in investment activities.	July 2019

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Risk and Assurance Framework*	Assistant Director, Investments and Finance	Annually (June)	<p>Best Practice – to ensure the Fund’s approach to investment is managed in consideration of risk</p> <p>To ensure the Fund has in place an appropriate risk register ensuring the Fund mitigates against potential impacts</p>	July 2019
Customer Engagement Strategy	Head of Pensions	Annually	Best Practice – broadens the communication policy to review effective engagement	April 2019

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Communications Policy*	Head of Pensions	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Compliance – legal duty to publish a communications policy outlining how we communicate and with who	July 2019
Customer Feedback Policy	Head of Governance and Corporate Services	Annually	Event driven	Sept 2019 to ensure the Fund is actively managing the feedback received and that new ideas and lessons learned are being implemented.
Administering Authority Policy Statement*	Head of Operations	Annually to confirm legislative duty has been complied with	Compliance – published policy on the exercise of discretionary administration functions	April 2019

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Pension Board Member Conduct Review Policy	Head of Governance and Corporate Services	Annually in line with statutory guidance from the Scheme Advisory Board	Compliance – to outline how the Fund will manage complaints against Board members. Required under the Public Service Pensions Act 2013	July 2019
Freedom of Information and Data Protection	Head of Governance and Corporate Services	Annual review of the information governance policies	Review adherence to regulatory requirement	Sept 2019
Policy on Termination Funding for Employers	Head of Pensions	Annually monitored to confirm legislative duty has been complied with	Best Practice – formally reviewed as part of each triennial valuation	April 2019- Inclusion within the Funding Strategy Statement

The West Midlands Pension Fund Local Pension Board is responsible for assisting in the good governance and administration of the scheme. Part of their role is to ensure the Fund complies with statutory requirements on the publication of policies, as well as ensuring the Fund has in place appropriate practices for managing and administering the scheme. This policy review plan highlights the policies published by the Fund. The Local Pension Board will review the Fund's compliance to publishing these policies at each meeting on a rolling 12 month plan, considering a number of the policies at each of its meetings.

* These policies are published in the Fund's annual report and accounts.

Summary of pension Board Training Hours 2018-2019

ATTENDEES	IN HOUSE STRUCTURED	TRUSTEE TOOLKIT Completed/number of units completed/to be completed	MYR and AGM	EXTERNAL CONFERENCES & SEMINARS	ON-LINE TRAINING/READING	TOTAL HOURS*
Campion Sharon	15.50	0.00	0.00	2.00	6.00	23.50
Malcolm Cllr Hazel	1.00	8.00	0.00	5.00	5.50	19.50
Johnson Paul	10.00	0.00	4.00	0.00	8.00	22.00
Carman Jacqueline	7.00	0.00	0.00	3.00	3.00	13.00
Carter Steve	15.00	1.50	8.00	11.00	0.00	35.50
Foxall Michael	9.50	8.00	4.00	5.00	11.00	37.50
McCormick Joe	12.00	2.00	4.00	7.00	0.00	25.00
Page Cllr Phil **	0.00	0.00	0.00	0.00	0.00	0.00
Sutton Mike	4.00	0.00	1.00	23.00	1.00	29.00
Turner Adrian	16.00	0.00	6.00	13.00	0.00	35.00
TOTAL	90.00	20.50	35.00	72.00	36.50	254.00

*Total Hours also includes those hours accumulated by members who have left during the year

**Cllr Phil Page was elected Mayor for 2018-19 Democratic Year

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report title Quarterly Investment Report to 31 March 2019

Originating service Pension Services

Accountable employee(s) Jill Davys Assistant Director – Investment & Finance
Tel 01902 550555
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Report to be/has been considered by Rachel Brothwood Director of Pensions
Tel 01902 551715
Email rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The global market and investment update paper prepared by the Fund's adviser, Redington, included at appendix A.
2. Quarterly Asset Allocation and Performance Reporting for the West Midlands Pension Fund
3. Quarterly Asset Allocation and Performance Reporting for the West Midlands Integrated Transport Authority
4. The updated information received in relation to the Fund's investment costs transparency reporting

1.0 Purpose

- 1.1 The quarterly investment report covers the range of investment issues for consideration by the Committee, primarily the market and investment background and the quarterly performance of both the West Midlands Pension Fund and the West Midlands Integrated Transport Authority. Supporting responsible investment activities are covered in a separate paper.

2.0 Background

- 2.1 This paper aims to bring together routine investment matters relevant to the management and implementation of the Fund's investment strategy and related policies:
- I. The economic and market background environment in which the Fund operates and the outlook for different asset classes;
 - II. The Fund's investment strategy is outlined in the Investment Strategy Statement (ISS), approved at the March 2019 Pension Committee set in conjunction with the Funding Strategy Statement to target a return over the long term to deliver the asset values required to meet benefit payments due to members. The Strategic Investment Allocation Benchmark (SIAB) forms part of the ISS and includes the target asset allocation and the levels of returns investment policies will be benchmarked against.
 - III. WMITA Pension Fund's investment strategy is set out in its Investment Strategy Statement, which also contains the Fund's investment beliefs. An updated strategy as at March 2019 was approved by the Committee at its 27 March 2019 meeting.

3.0 Summary

- 3.1 Over the last financial year to 31 March 2019, the West Midlands Pension Fund's market value increased from £15.4 billion to £15.7 billion and the West Midlands Integrated Transport Authority Funds value decreased from £494 million to £492 million. Following on from the final quarter of 2018 which saw many global stock markets record their worst performance since the 2008 financial crisis, equity markets rebounded strongly in the first quarter of 2019. In the first quarter of 2019, UK gilts delivered solid returns as dovish signals from the world's central banks (inclined against increasing rates), against a backdrop of slowing global growth, helped support demand for traditional safe haven assets. The UK property sector has started to stall after a period of strong performance impacted in part by the poor retail sector outlook.

4.0 Markets and Investment Background

- 4.1 The Fund's Investment Adviser, Redington provides a quarterly update on the market background and market performance over the quarter. The report for the quarter to 31 March which further sets out the outlook for the Fund's key asset classes over the coming months can be found in Appendix A.

- 4.2 Equity markets made strong gains in the first quarter of 2019, rebounding from a weak end to 2018 as concerns over the China-US trade dispute eased (although subsequently tensions have risen sharply since quarter end) and major central banks grew more accommodative. Within the equity portfolio, US equities posted the biggest gains over the first quarter of 2019 of 11.3%. This was fuelled mainly by an increasingly softening Federal Reserve commentary on rate increases, apparent progress in US-China trade talks, and the end of the US government shutdown. Within the UK the obsession and lack of resolution with Brexit has continued through the quarter. This continues to lower the economic growth outlook and reduce the willingness of both companies and investment managers to invest in the UK. The 'high street' sector continues to struggle with high costs and lower revenues whilst business is still reviewing how to proceed in the future. Despite posting significant equity market gains, the concerns about the future outlook helps to explain the relatively lack lustre performance of UK stock markets when compared to many others.
- 4.3 Looking forwards market commentators continue to expect lower global economic growth and corporate earnings growth with the Eurozone looking particularly vulnerable. Many investors seem to expect growth to continue into 2020 and potentially to 2021 as the outlook for a recession gets moved back due partly to positive central bank actions and benign inflation. However, despite this quarter many market commentators are discussing more defensive strategies going forwards, and many are also viewing emerging markets positively.
- 4.4 In the first quarter of 2019, UK gilts delivered solid returns as dovish signals from the world's central banks, against a backdrop of slowing global growth, helped support demand for traditional safe haven assets. Gilts additionally benefited from ongoing Brexit uncertainty, with 10-year yields briefly dipping below 1% in March. UK corporate bonds also performed well over the period in which they recorded gains of 4.1%, as the general improvement in investor sentiment helped boost returns.
- 4.5 UK commercial property got off to a subdued start in 2019, a stark contrast to the previous year, when the market recorded a total return of 6.2%. So far this year, capital values have fallen in the Retail sector - reflecting the trend experienced throughout 2018. Conversely, values have continued to rise in the Office and Industrials sectors. But despite weakness in Retail, overall UK property recorded a small positive total return for the first quarter of the year.

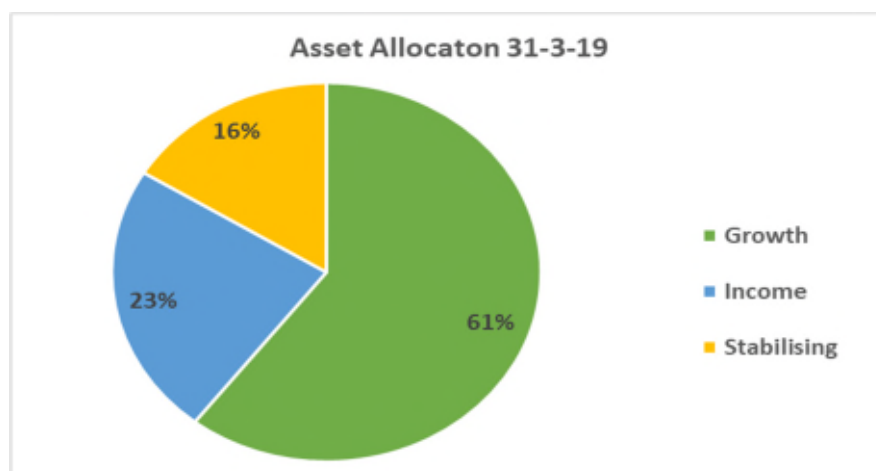
5.0 West Midlands Pension Fund Quarterly Performance

- 5.1 At the end of the fourth quarter of the financial year 2018/19, the value of the West Midland Pension Fund had risen to £15.7 billion at the end of March 2019 from £15.1 billion at 31 December 2018. The asset allocation of the portfolio as at the end of the quarter to 31 March 2019, compared to the strategic targets is set out in the table below. This excludes net current assets, hence the difference to the £15.6 billion total value of the Fund quoted below:

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Asset class	Value (£m)	Fund allocation %	Policy target %	Difference %
Growth				
Quoted equities	8,176	52.4	48.0	4.4
Private equity	1,028	6.6	10.0	-3.4
Special opportunities	235	1.5	2.0	-0.5
Currency Hedge	(2)	0.0	N/A	N/A
Total growth assets	9,437	60.5	60.0	-0.5
Stabilising				
UK gilts	323	2.1	2.0	0.1
Index linked gilts	817	5.2	5.0	0.2
Cash	511	3.3	2.0	1.3
Corporate bonds	412	2.6	2.0	0.6
Cashflow matching fixed interest	305	2.0	3.0	-1.0
US TIPS	152	1.0	0.0	1.0
Total stabilising assets	2,520	16.2	14.0	2.2
Income assets				
Specialist fixed interest	469.5	3.0	3.5	-0.5
Emerging market debt	629	4.0	3.5	0.5
Property	1,323	8.5	10.0	-1.5
Insurance linked funds	361	2.3	3.0	-0.7
Real assets and infrastructure	849	5.4	6.0	-0.6
Total income assets	3,631	23.3	26.0	-2.7
TOTAL	15,588	100.0	100.0	-

The asset allocation between the core categories of investment strategy as at 31 March 2019 are shown in the chart below:



As at 31 March 2019 the Fund remained slightly overweight in growth and stabilising assets, with an underweight position in income assets. The Fund's asset allocation target

portfolio aims to increase income assets and as a result the Fund continues to look for opportunities to deploy further investment in income assets.

During the quarter, the Fund undertook two equity transitions, the first from external managers to transition to LGPSC Ltd global active equity sub-fund, along with a transition from internal global equities to a basket of equity futures pending transition to global equity sustainable mandates. In addition, the fund invested £50m into a property asset, as well as investments in long dated US Treasury inflation protection securities and medium-term gilt exposure.

The Fund held an overweight allocation to cash, due in part to the need to hold cash as collateral for the Fund's passive currency hedging position.

- 5.2 Given the level of change within the portfolio over the year and ahead of the next investment strategy review, the Fund is currently working with appointed advisers to review the benchmarks used to assess performance across the range of invested asset classes. Working with the Investment Advisory Panel, the review will ensure the composite benchmarks set for the Fund appropriately reflect the returns expected from the underlying investments. A further report will be provided to the Committee in September. Performance of the different asset classes is set out below in line with the allocation strategies for the Fund.

Growth Assets

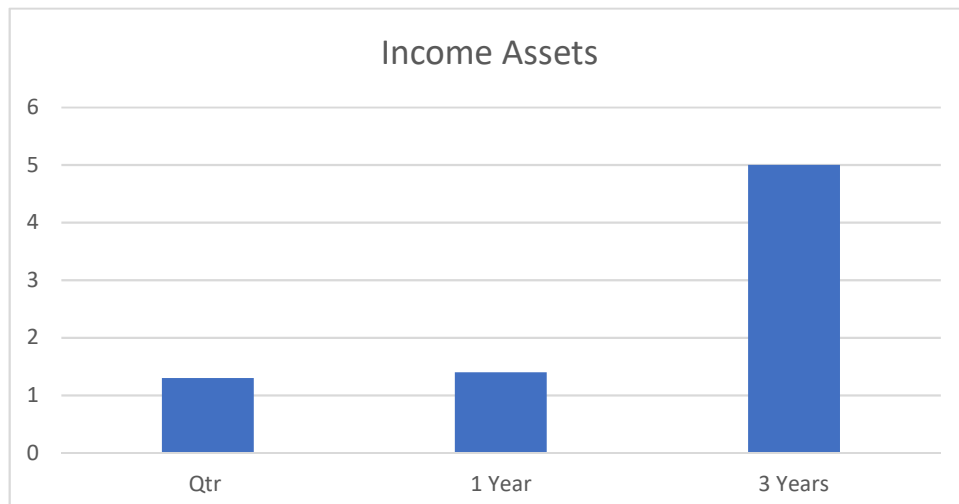
- 5.3 This portfolio comprises passive equity, active equity and private equity investments. For the Fund, this has been a year of transition with the Fund's internal passive assets transitioning to LGPS Central Ltd at the start of the year with the active global equity assets transitioning in the fourth quarter of the year, with approximately 50% going into an LGPSC Ltd ACS sub-fund and the remainder to a basket of global equity futures pending the transition to the sustainable equity mandate in the next few months. Over the quarter to 31 March 2019 the growth portfolio grew in aggregate by 7.3% reflecting the turnaround in equity markets following the setback in the quarter to December 2018. Over the year as a whole the growth assets saw an increase on the year of 4.5%, with the 3-year annualised performance of 11.9% over the period, significantly in excess of inflation and the target return of CPI + 4-6% p.a., in what has been a particularly volatile period for equity markets, which has included Brexit concerns, trade wars and geopolitical uncertainty.



5.4 In terms of the individual asset classes within the growth portfolio, the passive element has as might have been expected performed in line with the index over the period. The active equity performance has been mixed with some elements lagging others over the year with corrective action being taken to address the areas that were seeing weaker performance, albeit taking longer than hoped. The private equity portfolio, where performance typically lags that of the broader market due to the illiquid nature of the assets and this has meant that this area has tended to struggle against the broader market in the portfolio. As noted earlier, the Fund is currently reviewing the benchmarks and this will include the performance targets which the Fund has hitherto measured itself against. This is to ensure that the chosen benchmarks are appropriate, transparent and realistic.

Income Assets

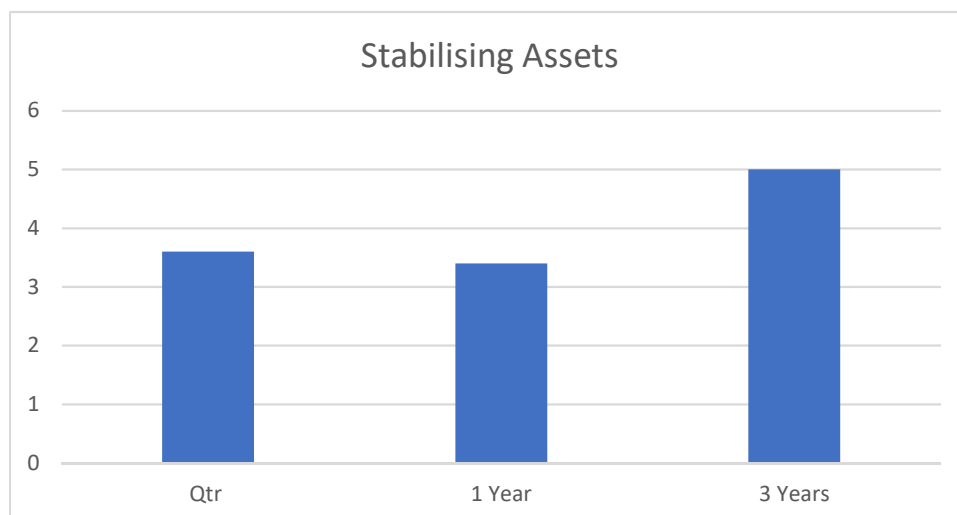
5.5 The Fund's income assets comprise a diverse range of individual asset classes which includes emerging market debt, multi-asset credit, property, infrastructure and insurance linked securities. The Performance of these assets is shown below over both the short and longer term:



- 5.6 Performance has been disappointing over the one-year period with the income portfolio returning just under 1.5% over the year, although on a longer-term view returns have been stronger at 5% annualised over 3 years, within the target return of CPI + 2-4% p.a. over the longer term.
- 5.7 Within the income asset category, performances have been very diverse, with individual investment categories performing within or above the expected longer term returns for this asset class including property, infrastructure and emerging market debt. The performance for the income group has been significantly impacted by poor performance from the insurance linked sector which has been impacted by a series of severe weather-related events making insurance claims experience much higher over a more extended period. Whilst volatility in this sector is to be expected exposed as it is to catastrophic events, the sector has historically delivered some strong returns to the Fund, which until recently would have compensated for the shorter-term performance drag, investing in this asset class has also offered the portfolio a mechanism for accessing uncorrelated returns i.e. the sector is unlikely to be affected by broader investment market issues. The Committee will be aware that this segment of the portfolio has been problematic for a number of quarters and the Fund is undertaking a fundamental review of the sector with its advisers to determine the extent to which insurance linked will form part of the investment portfolio going forwards and will keep Committee updated of progress.

Stabilising Assets

- 5.8 The stabilising portfolio comprises the Fund's exposure to government bonds and index linked securities, corporate bonds, cashflow matching and cash. The longer-term target returns from this part of the portfolio are expected to average CPI + 0-2% over the longer term with lower volatility The Chart below shows that the portfolio has exceeded its targeted return over the short and longer term.



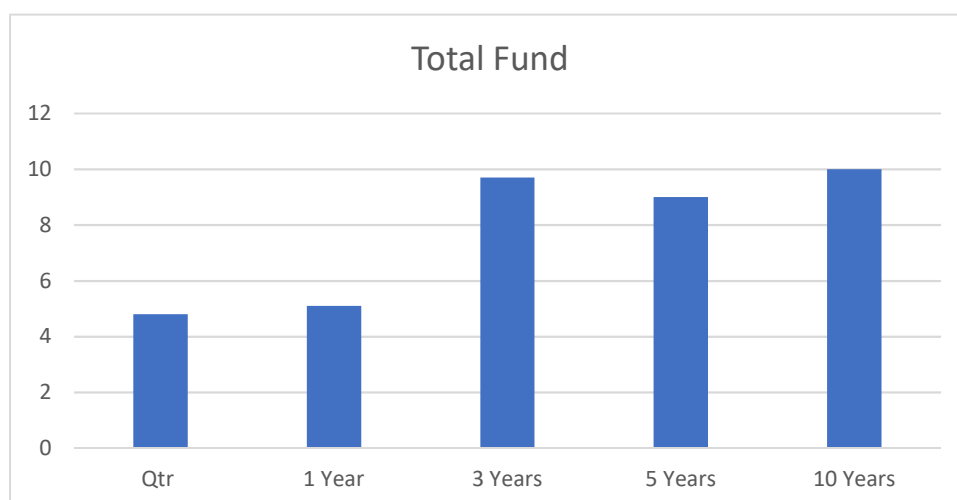
Currency

5.9 Having benefitted from the weakness of sterling during 2016/17, the Fund entered a passive currency hedging programme in September 2017 to protect returns in sterling terms and to reduce currency risk within the investment portfolio. The hedge is applied to the Fund's overseas quoted equity portfolios with a hedge ratio of 50% based on the strategic weights for each region.

During Q1 2019, whilst the hedge acted as a drag on the absolute return of the Fund due to sterling weakness on the back of Brexit concerns, it has been performing in line with expectations.

Total Fund Performance

5.10 The performance of the Fund over the last financial year delivered returns of 5.1% reflecting strong underlying market trends. Over the 3-year period since the last actuarial valuation the Fund has seen returns of 9.7% p.a., a level in excess of the rate required over the long term to support the funding of Scheme benefits.



Investment Costs

5.11 The Fund continues to review its internal and external manager performance and fees to ensure the effective implementation of its investment strategy in line with the Fund's Investment Strategy Statement. Having run the pilot study for the Cost Transparency Initiative, the investment costs being disclosed for the financial year 2018/19 reflect better capture and enhanced transparency, an approach that the Fund has progressively adopted for a number of years. Reported costs for this year are, as a result, higher than envisaged at the start of the year with increases largely driven by an increase in underlying manager reported costs (for example including greater operational and implicit costs) and Fund collection of these, in accordance with the new market-standard templates.

6.0 West Midlands Integrated Transport Authority (WMITA) Quarterly Performance

6.1 At the end of the financial year 2018/19, the value of the WMITA Fund has fallen from £503 million to £492 million at the end of the financial year to 31 March 2019 as global equity markets recovered from the setback in the previous quarter. The table below sets out the asset allocation of the portfolio at the end of March (excluding the buy-in element of £224.5 million, revalued as at 31.03.19), the policy targets are those set in the Investment Strategy Statement, updated following changes agreed with Committee in March 2019.

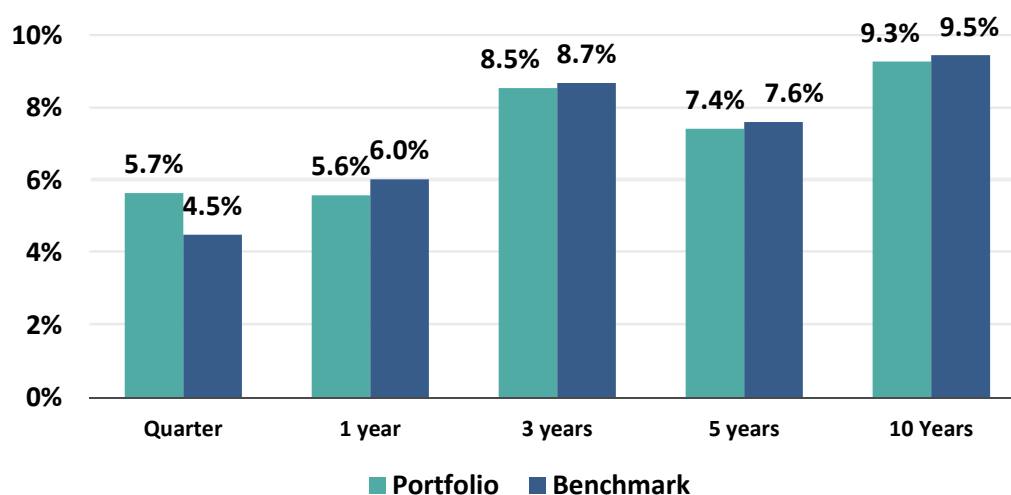
Asset class	Value (£)	Fund allocation	Policy target	Difference
Equities	£ 72,359,740	27.0%	27.1%	-0.1%
Diversified Growth Funds	£ 95,210,039	35.6%	35.5%	0.1%
Fixed Interest	£ 43,381,000	16.2%	0.0%	16.2%
MAC	£ 52,577,856	19.6%	20.3%	-0.7%
LDI	£ -	0.0%	17.1%	-17.1%
Cash	£ 4,273,382	1.6%	0.0%	1.6%
TOTAL	£ 267,802,017	100.0%	100.0%	0.0%

*Excludes Prudential buy-in £224.5 million

** Policy target shows the updated policy targets agreed by Pensions Committee in March 2019

6.2 The Fund has implemented the first part of the strategic changes by switching out of equities and into a multi-asset credit funds and work to implement the Liability Driven Investment is ongoing.

6.3 In the quarter ended 31 March 2019, the fund achieved a return of 5.7% against the benchmark return of 4.5%. Over the 12-month period the fund marginally underperformed the benchmark by 0.4%, this was mainly due to the underperformance of the DGF's relative to equities and fixed interest portfolios. The chart below shows the gross and relative performance of the portfolio over the last quarter and over the longer term.



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6.4 The table below sets out the different components of the performance of the portfolio to periods to end March 2019. The passive equity portfolio has performed in line with the benchmark over all periods under review. The diversified growth portfolio has experienced mixed performances with one of the portfolios impacting on the overall performance of the DGF allocation. The fixed income allocation is split between passive index linked exposure (which has performed in line with benchmark) an active corporate bond portfolio and a multi-asset credit fund.

7.0 Investment Pooling Update – LGPS Central

7.1 Following the launch of the Global Equity Active ACS Sub-Fund in November, the Fund along with four other Partner Funds committed and transitioned over £2bn to this sub-fund during February 2019.

7.2 The Fund made a commitment to the LGPS Central Ltd private equity sub-fund, which started to draw down post quarter end investing in a range of funds and co-investments.

7.3 Work has also taken place alongside input from the Fund and other Partner Funds to develop emerging market equity and corporate bond sub-funds, with the emerging market equity sub-fund being launched and transition arrangements being made. Several other sub-funds remain in development including the low carbon factor based sub-fund and the Committee will be kept updated of other opportunities as they arise.

	Absolute performance				Relative performance			
	Quarter	1 year	3 years p.a.	5 years p.a.	Quarter	1 year	3 years p.a.	5 years p.a.
Equities	8.8%	7.1%	13.8%	10.8%	0.0%	0.0%	0.0%	0.2%
Diversified Growth Funds	5.2%	3.8%	4.0%	10.8%	4.1%	-0.6%	-0.2%	-0.4%
Bonds	4.0%	2.8%	6.0%	6.9%	-1.3%	-2.3%	-0.7%	-0.4%
Total return	5.7%	5.6%	8.5%	7.4%	1.2%	-0.4%	-0.1%	-0.2%

8.0 Financial implications

8.1 The financial implications are set out throughout the report.

9.0 Legal implications

9.1 This report contains no direct legal implications.

10.0 Equalities implications

10.1 This report contains no equal opportunities implications.

11.0 Environmental implications

11.1 This report contains no environmental implications.

12.0 Human resources implications

12.1 This report contains no direct human resources implications.

13.0 Corporate landlord implications

13.1 This report contains no direct corporate landlord implications.

14.0 Schedule of background papers

14.1 Investment Strategy Statement

<http://www.wmpfonline.com/CHttpHandler.ashx?id=17516&p=0>

14.2 Funding Strategy Statement

15.0 Schedule of appendices

15.1 Appendix A: Redington Economic and Market Update May 2019

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REDINGTON



YOUR MARKET AND INVESTMENT UPDATE

Page 8
Q1 2019

West Midlands Pension Scheme



WHAT HAPPENED DURING THE QUARTER



Philip Rose
(CIO, Strategy
& Risk)

Market Data

Central banks have, in aggregate, moved from tightening monetary policy to being on hold, feeding through to a strong rally in risk assets in the first quarter.

At the same time, markets have moved to discounting unchanged or easing monetary policy rather than additional tightening. This does leave markets open to the possibility of disappointment if the economy rebounds from the current slow growth priced in and central banks resume tightening, but also limited room to cut rates if there is a downturn.

The increased importance of China, both as a major driver of growth and in offering a relatively uncorrelated business cycle, is not yet reflected directly in many investor portfolios.

Key Points for You

- › Targets need to be clarified through an investment strategy review to allow the Pension Risk Management Framework to be agreed (pg 5).
- › Risk is broadly in line with the current indicative target.
- › Expected return increased over the quarter due to an update to our equity expected return assumption. It remains below the 3.5% target.
- › Equities are the dominant contributor to expected return and risk (pg 6 & 7) – there may be scope to reduce the reliance on equities.

Equity Index	Level	Change since 31-Dec-18	Change since 30-Mar-18
FTSE 100 (Total Return)	6515	9.5%	7.7%
S&P 500 (Total Return)	5664	13.6%	9.5%
EuroStoxx 50 (Total Return)	1344	12.3%	3.5%
Nikkei 225 (Total Return)	33960	6.9%	0.9%
MSCI World (Total Return)	4662	12.6%	6.7%
MSCI Emerging Markets (Total Return)	581	9.8%	-1.9%
FX			
USD vs GBP	1.30	2.1%	-7.0%
EUR vs GBP	1.16	4.4%	2.1%
Credit Spreads			
Sterling Non-Gilt Index	127	-18 bps	14 bps
Sterling Non-Gilt 15Y+ Index	177	-21 bps	9 bps
Global Investment Grade	115	-25 bps	22 bps
US Investment Grade	127	-26 bps	20 bps
Global High Yield	369	-108 bps	48 bps
European High Yield	323	-103 bps	66 bps

UK Gilts	Level	Change since 31-Dec-18	Change since 30-Mar-18
10Y	1.03	-27 bps	-39 bps
30Y	1.57	-29 bps	-13 bps
UK Nominal Swaps			
10Y	1.22	-23 bps	-30 bps
30Y	1.38	-18 bps	-13 bps
Gilt Breakeven Inflation			
10Y	3.36	9 bps	24 bps
30Y	3.43	5 bps	7 bps
UK RPI Swap			
10Y	3.52	-4 bps	18 bps
30Y	3.47	0 bps	4 bps
UK Gilt Real Rates			
10Y	-2.32	-36 bps	-62 bps
30Y	-1.86	-33 bps	-20 bps
US TIPS			
20Y	0.87	-42 bps	-2 bps
30Y	1.01	-29 bps	2 bps

VIEWS FROM THE ASSET CLASS SPECIALISTS



Kate Mijakowska

LDI and Gov Bonds

Q1 2019 was another quarter with substantial interest rate falls. Both nominal and index-linked gilt yields fell by 0.2-0.3% across the curve. The 20-year index-linked gilt yield reached an all-time low in March at -2.0%. Gilt z-spreads (gilt spreads over swaps) fell by 0.1% at the middle and long end of the curve, as gilts outperformed swaps. While breakeven inflation was broadly flat on the quarter, there has been volatility within Q1 on the back of the report published by the House of Lords Economic Affairs Committee in January. The report pointed to flaws in the RPI and recommended that the government and the UK Statistics Authority decide on a single measure of inflation within the next 5 years, as well as the issuance of gilts linked to CPI in the interim. The Government is obliged to respond to the report.



Nick Samuels

Liquid Markets

Equity markets rallied strongly after a weak finish to 2018, as investors priced in the likelihood of no US rate hikes in 2019, and tempering China-US tensions. The rally was led by the US and Europe, with a more muted response from Japan and UK. China A shares, however, were the standout market as investors finally began to recognise the opportunity there. Quality/Growth orientated Global Equity strategies continued to outperform Value, as they did in 2018.

The underperformance of Value as a factor meant for muted – albeit still positive – returns in Diversified Risk Premia strategies, as other factors such as Momentum and Defensive failed to offset sufficiently.

The strong equity markets helped Diversified Growth Funds rally after a tough Q4 2018, with the more asset allocation orientated funds outpacing those that look to make relative value calls.



Chris Bikos

Liquid & Semi-Liquid Credit

The first quarter of 2019 saw a reversal of the sell-off in Q4 2018. Rates fell and credit spreads tightened, resulting in positive returns across all major credit asset classes. In the US, long-dated and high yield credit were the strongest performing asset classes, driven respectively by falling rates and credit spreads. Overall, lower-rated bonds (single B and below) lagged in terms of performance. Sterling assets across all maturities had a positive quarter, with returns coming equally from spread and rate movements. In Europe, the ECB announced a new lending programme for banks but more details around the maturity, cost and size are expected later in Q2. European high yield and corporate debt delivered positive returns. Emerging market bonds had a positive quarter, with US dollar-denominated debt outperforming local currency bonds as certain EM currencies weakened.



Tom Duggan

Illiquid Credit

Q4 2018 market volatility did not persist long enough to create a wider move in illiquidity premia. However, the impact of market volatility has brought the downside protection characteristics of private credit to the forefront of investors' attention. Data provider Preqin commented that fundraising activity has shifted away from direct lending and over to distressed debt and special situations during Q1 2019. Limited Partners have seen healthy distributions over the last two years, and so client re-allocation has been strong. 2018 was the fourth consecutive year of >\$100bn inflows to private credit. This has led to marginal spread compression and seemingly weaker underwriting standards in certain parts of the market. Our rated managers continue to be cautious in the light of relatively compressed yields, elevated corporate leverage levels and pressure on loan covenants and documentation.



Keir Macdonald

Illiquid Markets

The Q1 2019 UK property market saw a continuation of the 2018 trend of divergence between the stronger-performing industrial sector and the weaker retail sector.

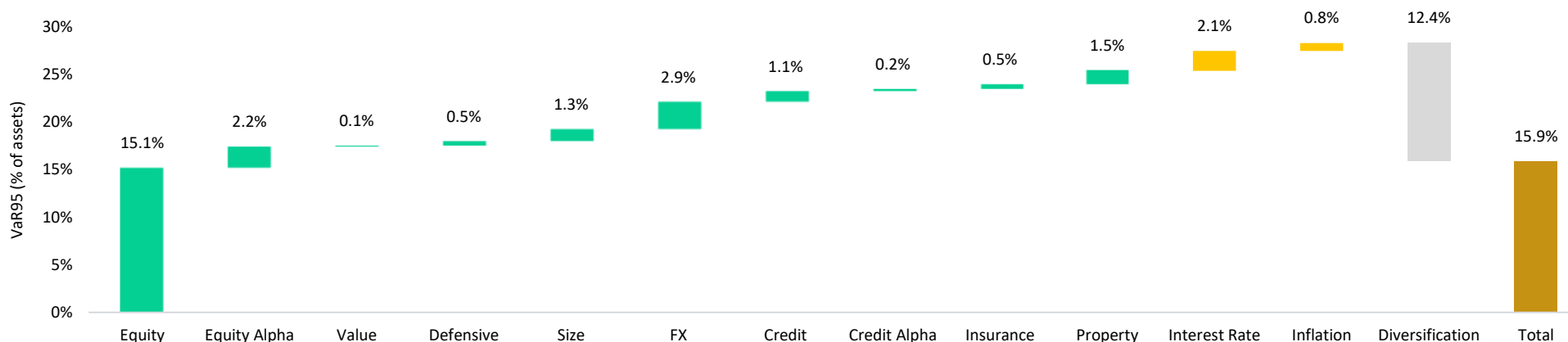
In infrastructure, the number of global completed deals continues to fall, and the UK market remains highly competitive across sectors. With Private Finance Initiative (PFI) and Private Finance 2 (PF2) discontinued, investors seeking government-backed sterling revenues are now pursuing a limited number of opportunities to finance rail infrastructure with government-backed availability-based contracts.

In the insurance-linked securities market, 1/1 renewals occurred at rates broadly flat or slightly down relative to the previous year, with the exception of accounts that suffered significant losses, such as Californian insurers affected by wildfires. The broad focus over Q1 has been on loss creep from 2018, namely from the California wildfires and Typhoon Jebi.

HELPING YOU UNDERSTAND YOUR RISK

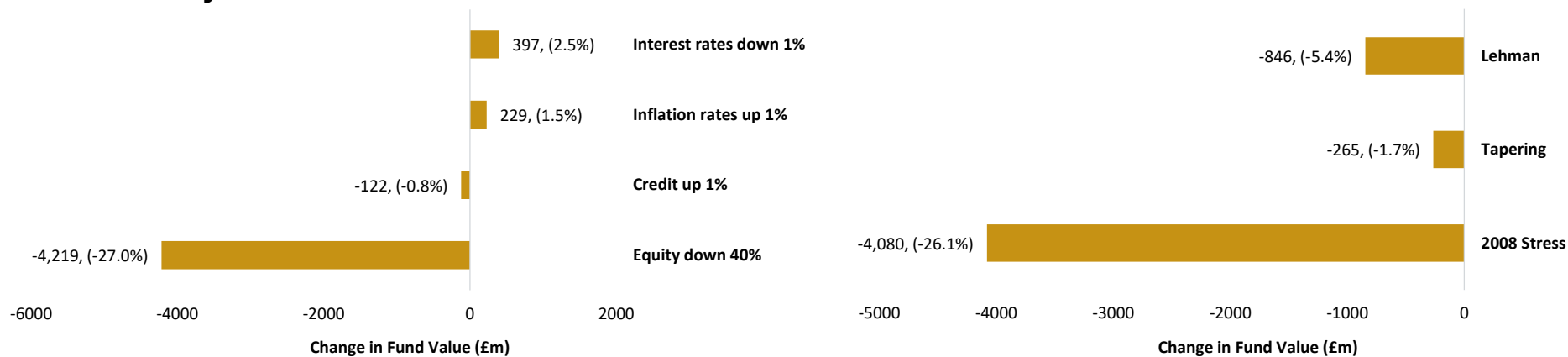


Current Value-at-Risk 95%



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Scenario Analysis



ASSET CLASS UNIVERSE

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REDINGTON'S EXPECTED RETURNS

Asset Class	Expected Return (Gilts +) (March 2018)	Volatility	Expected Fees (p.a.)
Equity			
Developed Markets Equity (Passive/Active)	4.3%	17.1%	0.1%-0.7%
Emerging Markets Equity (Passive/Active)	4.9%	21.0%	0.2%-0.7%
Japan Equity (Active)	4.3%	17.1%	0.6%-0.7%
Asia Pacific Equity (Active)	4.3%	17.1%	0.6%-0.7%
European Equity (Active)	4.3%	17.1%	0.5%-0.6%
China Equity (Active)	5.5%	27.1%	0.7%-0.8%
Sustainable Equity (Active)	4.5%	15.4%	0.4%-0.5%
Fixed Income			
UK Corporate Debt	1.2%	5.4%	0.1%-0.2%
US Corporate Debt	1.2%	4.7%	0.1%-0.2%
Structured Credit	1.5%	4.2%	0.3%-0.4%
Emerging Market High Yield	2.3%	5.6%	0.5%-0.7%
Liquid Alternatives			
Diversified Risk Premia	5.1%	9.8%	0.5%-0.8%
Illiquid Assets			
Social Housing	4.5%	11.6%	0.7%-0.9%
Private Equity	4.3%	24.5%	1.5%-2.0%
Property (Direct)	3.4%	11.7%	0.3%-0.4%
Property (Indirect)	3.3%	11.7%	0.5%-0.7%
Insurance-Linked Securities	3.0%-4.5%	10.9%	1.5%-2.0%

Fee data is estimated based on fees of preferred managers in each strategy. In practise each fee would be negotiated for West Midlands and may be considerably lower.

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CITY OF WOLVERHAMPTON COUNCIL	<h1>Pensions Committee</h1> <p>19 June 2019</p>
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Report title	Responsible Investment Activities	
Originating service	Pension Services	
Accountable employee(s)	Jill Davys Tel Email	Assistant Director – Investments & Finance 01902 550555 Jill.Davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for decision:

The Committee is recommended to approve:

1. The Fund's updated Responsible Investment Framework
2. The Fund's updated Voting Principles (UK)
3. The Fund's updated statement of Compliance with the UK Stewardship Code for Institutional Investors

Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 31 December 2018, including Appendix D.
2. The issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website:
<https://www.lgpscentral.co.uk/responsibleinvestment/>
3. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

1.0 Purpose

- 1.1 To update the Pensions Committee on the work undertaken in relation to responsible investment activities since the last Pensions Committee meeting.

2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment framework. There are three main pillars to the framework: **selection** (of assets), **stewardship** (of assets), and **transparency & disclosure**.

3.0 Responsible Investment Framework and Statements

- 3.1 The Committee regularly reviews (in some cases annually) and approves the various framework and policy documents to ensure any necessary changes e.g. regulatory and changes in approach are incorporated. On this occasion, all three documents include minor amendments and a refresh of commentary rather than any fundamental changes. The documents for consideration and approval at this Committee comprise:

- Responsible Investment Framework
- Voting Principles
- Stewardship Code

- 3.2 Responsible Investment (RI) Framework: - The Responsible Investment Framework has seen a number of updates since last being approved by this Committee on 17 March 2018. This includes aligning the Fund's investment beliefs with the Investment Strategy Statement that was approved by Committee on 27 March 2019:

- Effective management of financially material ESG risks including climate change risks should support the Fund's requirement to protect returns over the long term.
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.
- Responsible investment should be integrated into the investment process.
- The Fund will manage responsible investment factors through engagement rather than exclusions.

In addition, reference to the Fund's Climate Risk Strategy and Framework approved on 27 March 2019 enhancing earlier commentary on the Fund's approach to climate change. The references to LGPS Central Ltd have also been amended to reflect the fact that the company is now operational and that it has already developed a leading

approach to Responsible Investment and supporting Partner Funds including WMPF in the implementation of Fund RI policy both through fund management arrangements and under advisory agreements with the Fund. The Fund's top engagement themes for 2019/20, based on financial significance and resonance with broader Fund stakeholders, have also been incorporated as set out below:

- Climate Change – ongoing consideration of potential risks as the pace of policy and evidence for rapid reaction continues to grow
- Single-use plastics – how companies are responding to pollution risks and preparing for the policy and customer changes which could significantly impact their business model
- Technology and disruptive industries risk – considering the potential social, governance and environment costs of new technology, changing consumer behaviour and mis-use, with the potential for global technology stocks (and the wider markets they drive to suffer material set-backs
- Tax transparency and fair tax payment – increasing transparency, tax practices and the impact of aggressive tax strategies on long-term shareholder value

The Committee are asked to approve the Responsible Investment Framework 2019, included at appendix A, following consideration of its contents.

- 3.3 Voting Principles: - The voting principles have been updated to reflect the inclusion of WMITA PF within the voting principles. The Voting Principles apply to all assets where the West Midlands as asset owner has voting rights and where voting rights are executed by external managers on behalf of the Fund, the Fund has reviewed and is satisfied with the voting policies of those managers. The principles have been further updated to incorporate the inclusion of LGPS Central Ltd who are now the key external provider of investment management services for WMPF. The Committee are asked to approve the updated Voting Principles 2019, included at appendix B.
- 3.4 Stewardship Code: - Both WMPF and WMITA PF fully support the UK Stewardship Code as part of best practice in being good stewards of capital and responsible asset owners. The background to the Code and its principles can be found on the Financial Reporting Council (FRC) website: <https://www.frc.org.uk/investors/uk-stewardship-code>. The main changes to the Fund's Stewardship Code adherence statement reflect the incorporation of LGPS Central Ltd since going live in April 2018, reflecting the fact that a considerable amount of the Fund's assets are now managed directly through LGPS Central Ltd sub-funds. It should be noted that the company has also signed up to the Stewardship Code and fully supports the 7 principles of the Code. Changes in the Fund's officer structure have been incorporated as the Fund no longer has a dedicated RI Officer, instead the implementation of the Code will sit with the Head of Investments and be supported by LGPS Central Ltd, with oversight by the Director of Pensions and Assistant Director, Investments and Finance. Reference to the Fund's engagement and voting provider is also included but no longer specifically names the provider. The FRC have further undertaken a consultation exercise to help frame a new Stewardship Code, expected to be published in the summer of 2019. Any changes to the Code itself, will be reviewed and a further updated compliance statement provided to reflect changes required at a

future Committee meeting. The Committee are asked to approve the updated compliance statement with the UK Stewardship Code for Institutional Investors 2019, included at appendix C.

4.0 Responsible Investment Activities

Engagement through Partnerships

- 4.1 The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement programme is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Hermes EOS (via a contract held by LGPS Central, the Fund's asset pool), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.
- 4.2 Through LAPFF, the Fund engaged with 104 companies during the quarter. Most engagements concerned the use of plastics, and climate change. Five engagements led to a small improvement. Most engagements were conducted by writing letters to the company concerned. A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix D. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
- 4.3 Through Hermes EOS, the Fund engaged 350 portfolio companies during the quarter, covering 777 environmental, social and corporate governance issues. Hermes EOS' activities support delivery against the Fund's stewardship themes, which are currently climate change, cyber security and diversity. Further details of Hermes EOS' engagement activity is found in the background paper as provided within this report.
- 4.4 The Fund's stewardship themes for 2018/19 were climate change, cyber security and diversity. These themes have been selected because they have both financial relevance and resonance with the Fund's stakeholders. The Fund is, primarily through partnerships, engaging with companies, fund managers and other relevant organisations, and using its voting rights to drive change and signal the importance of these issues to institutional investors. Progress on each theme is reported to the Pensions Committee on a quarterly basis.

Climate Change

- 4.5 The Fund has continued its proactive programme of climate change stewardship, primarily by leveraging its strategic partnerships including LAPFF, LGPS Central, Hermes EOS, the Transition Pathway Initiative, the Climate Action 100+ Initiative, and the Institutional Investor Group on Climate Change.

- 4.6 Engagement has taken place through Climate Action 100+ with Chevron Corporation with an initiative seeking “that Chevron issue a report... on how it can reduce its carbon footprint in alignment with greenhouse gas reductions necessary to achieve the Paris Agreement’s goal of maintaining global warming well below 2 degrees Celsius.”
- 4.7 Engagement has also taken place with Exxon Mobil, through Climate Action 100+ calling on Exxon Mobil to publicly disclose its lobbying activities. While ExxonMobil publicly supports the Paris agreement, and has donated to campaigns to introduce a carbon tax, it also supports trade associations and lobbying groups whose climate policies conflict with Exxon Mobil’s, and whose activities undermine progressive regulatory efforts to correct market failures including GHG emissions. Disclosure (and action) on lobbying activities is one of the aims of the Climate Action 100+ initiative, of which WMPF and LGPS Central Ltd are members. We have achieved significant successes on lobbying (for example, at Royal Dutch Shell, Rio Tinto, and other UKlisted extractive companies), and are calling on Exxon Mobil to rise to the same standard.
- 4.8 On the Fund’s behalf LGPS Central Ltd has engaged Rio Tinto as part of the Climate Action 100+ initiative, meeting the Chair, CEO, and other executives. The company has been very responsive to engagement, and has taken a number of steps to position the business to benefit from a transition to a lower carbon economy. This includes the sale of the thermal coal businesses, target-setting for scopes 1 and 2 GHG emissions, transparency over lobbying activities, and moving the management of climate risk from the Environmental and Legacy Management Team to the Strategy Team.
- 4.9 The Transition Pathway Initiative (TPI) is one of the Fund’s strategic partners for engaging companies on climate risk management. Headed by a steering group of asset owners, TPI is powered by climate change experts at the London School of Economics, and the data provider FTSERussell.

Cyber Security

- 4.10 As noted at the previous Committee meeting the PRI-led group engagement on cyber security and data protection has found a number of respondents to be reluctant to divulge information to shareholders and particularly in the public domain. US companies in particular were reluctant to grant the group access to board members to discuss cyber security. However, the Fund will continue to engage through external partners on these issues to provide assurance that the board has accountability for cyber risks, a clear line of sight as to the systems for managing this risk, and that there is due regard for cyber expertise and experience within the directors put forward for (re-)election to the board.

Diversity

- 4.11 The Fund continues to engage through its partnerships on the issues around diversity and specifically targeting companies with low levels of diversity on company Boards and pressing them to produce action plans setting out how they are responding to the challenge of increasing diversity and reporting on pay gaps across their workforce.

- 4.12 The Committee were appraised at the last meeting of an engagement with Millennium & Copthorne through the 30% Club, following which the company announced the appointment of a female to the Board as a non-executive director.

Voting Globally

- 4.13 The Fund's voting policies are currently executed by Hermes EOS via a contract held by LGPS Central, the Fund's asset pool. The Fund has contributed to and endorses LGPS Central's Voting Principles.
- 4.14 The voting activity for the quarter across markets and issues can be found in Appendix D. During the period, the Fund voted at a total of 390 company meetings – 49 UK, 69 European, 45 North American, 187 Developed Asia, 1 Australasian and 39 in Emerging and Frontier Markets. During this period there were 199 meetings where the Fund supported all the resolutions put forward by companies. Approximately 10% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed concerned the re-election of directors (usually voting against non-independent non-executive directors where the Fund or its advisors do not see sufficient independent oversight on a company board) and remuneration.

Framework and Strategy for Managing the risks and opportunities presented by climate change

- 4.15 The Committee will recall that at its meeting on 12 December 2018, a set of beliefs about climate change, and its relevance for the Fund, were discussed, noted and endorsed. These have been taken as the basis for developing a framework that sets out the Fund's approach to managing the risks and opportunities presented by climate change. The Committee approved on 27 March 2019 at its meeting the Fund's *Framework and strategy for managing the risks and opportunities presented by climate change*, which describes the Fund's proposed plan to address climate change over the coming four-year period (2019-2023). The Framework and strategy were based on five principles:
- **Integration:** connecting to and supporting the Fund's Investment Strategy Statement and Risk Register
 - **Informed:** that the best available evidence is used to inform the framework and strategy, which support the Fund's fiduciary duty to pay pensions
 - **High Ambition:** the Fund recognises its status as a large UK asset owner and seeks to establish a leadership position in matters of climate change management
 - **Actionable:** the framework and strategy are drafted in terms that describe clear actions such that progress can be observed and reviewed
 - **Holistic:** recognition that the scope of the pension fund's climate risk is broader than just its investment function, and far broader than just its investment in fossil fuel producers.

- 4.16 To assist with delivering on the framework and strategy, the Fund will utilise a series of selected partners who we believe provide the best available resourcing for our “Strategic Actions”. Consistent with the Fund’s belief that collaboration is vital for the mitigation of climate-related risks, we will collaborate with our Partner Funds and with LGPS Central Limited in the delivery against the framework and strategy.
- 4.17 The Fund has received correspondence from scheme members and from non-scheme member stakeholders regarding climate change as a financial issue, and as an ethical issue. The Fund is fully aware of the regulations and statutory guidance relating to matters of responsible investment, and Committee members receive regular training on this subject. The draft framework has been shared with employers who have engaged with the Fund on this issue.

Correspondence

- 4.18 During February 2019, the Fund received correspondence from Unison seeking support of Pension Funds globally on increasing transparency on tax payments on the basis that greater transparency will enable better investment decisions and protect long-term returns. Hermes EOS on behalf of the Fund and LGPS Central Ltd engages on tax transparency via its theme of *Conduct, Culture and Ethics* stating: “We support industry initiatives that, for example, press governments to amend tax regulations to restrict opportunities to shift profits offshore and to increase country-by-country reporting”. As noted above the Fund has adopted tax transparency and fair tax payments as one of its key themes for 2019/20 and Members will be kept updated of progress on this theme throughout the year.
- 4.19 As previously advised, the Committee has received correspondence in relation to the Fund’s investment in a Coventry-based company, Lockheed Martin and its involvement in the arms trade in Yemen. The Fund has reached out to LAPFF to consider direct engagement with the Company to better understand its approach and relationship with Leidos. LAPFF has written to the company to begin an engagement dialogue but had not received a response at the time of writing. The Committee will be updated as this dialogue progresses.

5.0 Financial implications

- 5.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund’s objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

6.0 Legal implications

- 6.1 This report contains no direct legal implications.

7.0 Equalities implications

7.1 This report contains no equal opportunities implications.

8.0 Environmental implications

8.1 Environmental implications are addressed through the Fund's Responsible Investment Framework.

9.0 Human resources implications

9.1 This report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 LGPS Central Quarterly Stewardship Report:
<https://www.lgpscentral.co.uk/responsibleinvestment/>

11.2 LAPFF Quarterly Engagement Report:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

11.3 Hermes EOS Engagement Report, Q1, 2019:
<https://www.hermes-investment.com/ukw/wp-content/uploads/2019/04/public-engagement-report-q1-2019.pdf>

12.0 Schedule of Appendices

12.1 Appendix A: WMPF Responsible Investment Framework 2019

12.2 Appendix B: WMPF Voting Principles 2019

12.3 Appendix C: WMPF Compliance with the UK Stewardship Code for Institutional Investors 2019

12.4 Appendix D: (WMPF Voting and Engagement Activity)



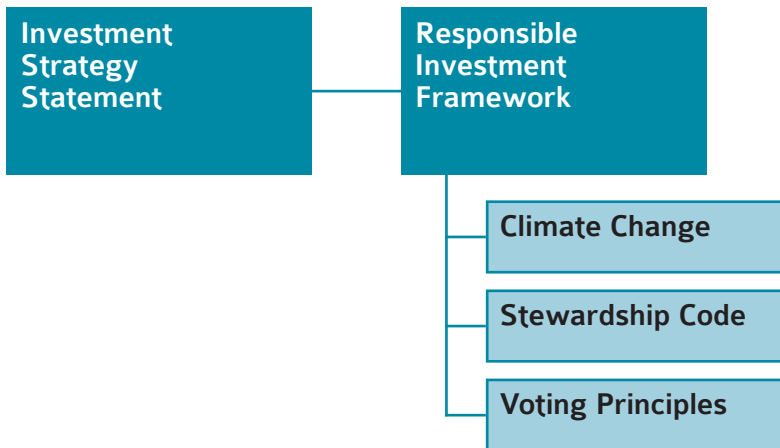
RESPONSIBLE INVESTMENT FRAMEWORK JUNE 2019



West Midlands Pension Fund

1 PURPOSE

This framework defines the commitment of West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund (together: “the Fund”) to responsible investment (RI). Its purpose is to detail the approach that Fund aims to follow in integrating environmental, social and governance (ESG) considerations in to its investment strategy and implementation. It informs and is supplementary to the Fund’s *Investment Strategy Statement*, aligning with the Fund’s investment beliefs and fiduciary duty.



This framework has been developed in the context of relevant regulations, statutory guidance and the advice of the Law Commission. Under the framework, the Fund applies a three-pillar approach to implementation: Selection, Stewardship and Reporting & Disclosure. Supporting practical application is the *Climate Change Strategy and Framework*, *Statement of Compliance with the UK Stewardship Code* and *Voting Principles*.

The Pensions Committee is at all times responsible for the Fund’s investments, including responsible investment beliefs and guiding principles which inform the development and review of RI policy. Responsibility for oversight and implementation of the Fund’s RI framework sits with the Director of Pensions, supported by the Assistant Director – Investments & Finance. This framework applies to all members of the Pensions Committee and the Fund officers.

The Pensions Committee review the framework at a minimum annually, or at such time as the Fund sees fit to revise its RI policies and procedures.

Definitions of Responsible Investment and Stewardship

The term “responsible investment” refers to the integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes.

It has relevance both before and after the investment decision and is a core part of fiduciary duty. It is distinct from “ethical investment”, which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code:

“Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.”

Please refer to the glossary for more definitions of terms.

2 BELIEFS AND GUIDING PRINCIPLES

Investment Beliefs

The Fund has defined and included within its *Investment Strategy Statement*, the following responsible investment beliefs:

- Effective management of financially material ESG risks including climate change risks should support the Fund’s requirement to protect returns over the long term.
- Investee companies with robust governance structure should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund’s investment objectives and strategy.
- Responsible investment should be integrated into the investment process.
- The Fund will manage responsible investment factors through engagement rather than exclusions.

The Fund recognises the importance of taking “proper advice” (as defined in the regulations) and of coming to investment decisions after adequate scrutiny of a robust evidence base.

Engagement and Collaboration

The Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of “engagement for positive change” to the due diligence, appointment and monitoring of fund managers.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Remuneration and Cost Management

Executive remuneration and investment management costs matter, particularly in low-return environments. Fee arrangements with fund managers and the remuneration policies of investee companies should be aligned with the Fund's long-term interests. The Fund recognises that it is part of its fiduciary duty to ensure that there is appropriate alignment, and notes that the now industry-wide cost transparency initiatives the Fund has led on have been pivotal in aiding greater understanding of cost to enable improved alignment and cost management.

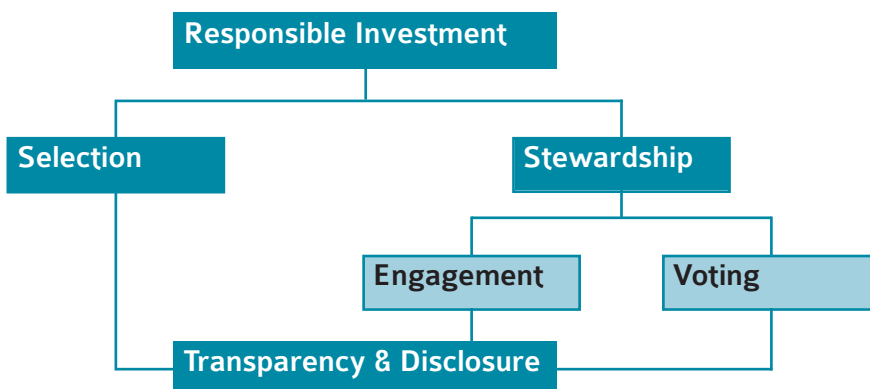
Climate Change¹

Financial markets could be materially impacted by climate change and by the response of climate policy-makers. The Funds have developed evidenced-based beliefs relating to climate change to assist in monitoring and managing this specific area of risk and opportunity and this is outlined in more detail within the *Climate Change Strategy and Framework*. As a responsible investor, the Fund will seek to proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible. The Fund is a strong supporter of the Paris Agreement on climate change and believes that policy makers, consumers, companies and investors have a role to play in increasing awareness and enabling transition through strong governance. Noting that climate-aware decisions will be better with accurate, relevant complete and comparable data, the Fund is engaging to increase disclosure and aid development of policy instruments.

No individual investor nor the investment industry is influential enough to achieve the rate of change required to avoid catastrophic consequences.

3 IMPLEMENTATION

Either directly or through Fund management arrangements, the Fund aims to put its responsible investment beliefs into practice through actions taken both before the investment decision (which we refer to as the selection of investments) and after the investment decision (the stewardship of investments). The Fund aims to be transparent to its stakeholders through regular, high quality disclosure. Together these ambitions yield the Fund's three RI pillars: Selection, Stewardship and Transparency and Disclosure.



¹By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk of particular importance to a number of stakeholders, and we communicate our investment beliefs about climate change for reasons of transparency.

Selection

The Fund aims to be aware of and monitor financially material RI issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Fund will monitor:

- RI issues in relation to directly managed investments;
- The extent to which Fund managers incorporate RI issues into their investment processes, with the expectation that managers' processes will improve over time. This is managed at the due diligence and appointment stages as further explained below:

Fund Manager Due Diligence

The Fund collects the following information from each manager before they are appointed where applicable to the asset class:

- Copy of their RI or stewardship policies (or equivalent) which articulates how RI factors, whether stemming from research, stewardship activities or other sources, are integrated into their investment process.
- Case studies or examples of where RI issues have influenced an investment decision.
- Information on the process for integrating any third-party RI data into their company financial models, investment strategies and portfolio construction.
- Fee transparency and evidence of disclosure, noting commitment to sign-up to the LGPS Code of Transparency as a condition of appointment.
- RI reporting format.
- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and UK (or other) Stewardship Code, copy of their PRI public report and annual assessment scores if applicable.

Fund Manager Appointments

The Fund assesses the RI capability of a Fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a Fund manager, the Fund takes a balanced consideration of all relevant factors including RI. However, the Fund will pay particular attention to adherence to relevant soft regulatory codes² depending on the market in which it invests.

In practice, this means the Fund is willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over time.

In alignment with the guiding principle on "Engagement and Collaboration", the Fund believes that there is added value in working managers to develop their approach.

²For example, UK and Japanese Stewardship Codes

LGPS Central Limited

From April 2018, Fund assets have started to transition into the LGPS investment pool, LGPS Central Limited. The pool company LGPS Central Limited (“Central”), established by the Fund and seven regional partners to operate collective investment vehicles through which the Fund may invest, has developed a leading approach to RI and supports Partner Funds in the execution of their individual RI policies. RI integration features in the investment process for all major asset classes, a suite of RI policies are in place together with a supporting engagement provider and regular monitoring and reporting.

Central supports the Fund in implementation of RI policy both through fund management arrangements and in an advisory capacity, supplementing and building on the collective action of the Fund and its own partnerships.

Stewardship

The Fund aims to make full use of its stewardship rights, including voting and engagement activities. Since April 2018 this has been executed on the Fund’s behalf by LGPS Central Limited for certain investments.

Company Engagement

The Fund’s approach includes bottom-up engagement – which targets improvements on specific issues at individual companies – and top-down engagement – which identifies particular themes of long-term economic significance and of relevance for stakeholders. The Fund will, either directly, collaboratively or through specialist service providers or fund management arrangements:

- hold constructive dialogue with investee companies;
- encourage the disclosure by companies of RI issues;
- participate in the development of public policy on RI issues; and
- disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of the Fund’s beneficiaries first.

Fund Manager Monitoring

Each fund manager is expected to report³ at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of RI issues into its investment and stewardship activities.
- How investment and stewardship functions are combined to protect and/or enhance value.
- Any outcomes arising from the manager’s engagement with companies and their effectiveness.

³Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

⁴<http://www.wmpfonline.com/article/5693/Voting-Globally>

Industry Engagement

In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to further support the Fund's fiduciary responsibilities.

The Fund considers these initiatives on a case-by-case basis.

Shareholder Litigation

The Fund is eligible to participate in certain individual and class action securities litigation. Securities litigation may be used as an escalation technique within an engagement process. There are a number of litigation options available when a company has violated securities laws that result in losses to the Fund.

For US-based claims, the options would be to:

- remain in the class action and file proof of claim through our claims administrator;
- participate as a lead plaintiff in a class action; or
- opt out and file a private action.

For non-US based claims, the options would be to join an existing group action or file a group action as a lead plaintiff.

The Fund takes a case-by-case approach in determining whether or not to join a class action but considers factors such as:

- advantages and disadvantages of the Fund becoming actively involved;
- relative size of the Fund's potential losses compared to other organisations;
- likelihood of success; and
- whether the Fund is fully indemnified against costs, expenses, counterclaims and any other losses.

Voting

The Fund uses its voting rights to support the long-term economic interests of its stakeholders and to ensure boards of directors are accountable to shareholders.

The Fund expects UK companies to adhere to the UK Corporate Governance Code on a comply or explain basis. Further, the Fund has a bespoke voting policy (supported and aligned with Central), which aims to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards.

The Fund expects companies outside the UK to adhere to international voting principles, recognising local application and development.

Where practical⁵, the Fund aims to vote in every single market in which it invests. In the interests of sending a consistent signal to investee companies, the Fund (through Central) uses a third party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. These arrangements are reviewed on a regular basis.

⁵Issues such as power of attorney or share blocking in certain markets may prevent the Fund's ability to do so.

Transparency and Disclosure

The Fund aims to keep its beneficiaries aware of its RI activities through:

- making its RI policy documents public, eg, voting policies, *Climate Change Framework and Strategy*;
- providing a summary of the Fund's RI activities, including voting activity⁸, in the annual report ;
- providing a summary of the Fund's RI activities in the quarterly reports to the Fund's Pensions Committee;
- publishing aggregate voting and company engagement statistics on a quarterly basis;
- disclosing the outcomes of its voting decisions on a vote-by-vote basis; and
- disclosing the Fund's approach to managing climate change risk using the TCFD framework.

4 ENGAGEMENT THEMES FOR 2019/20

The Fund has adopted the following top-down themes as areas for increased focus during the year:

- **Climate change** – ongoing consideration of potential risks as the pace of policy and evidence for rapid reaction continues to grow.
- **Single-use plastics** – how companies are responding to pollution risks and preparing for the policy and customer changes which could significantly impact their business model.
- **Technology and disruptive industries risk** – considering the potential social, governance and environment costs of new technology, changing consumer behavior and mis-use, with the potential for global technology stocks (and the wider markets they drive to suffer material set-backs).
- **Tax transparency and fair tax payment** – increasing transparency, tax practices and the impact of aggressive tax strategies on long-term shareholder value.

The themes have been selected based on their potential financial significance and resonance with a broad range of Fund stakeholders.

Climate Change Stewardship⁶

The Fund, either directly, through partnerships or fund management arrangements, aims to engage in purposeful stewardship.

Working with our partners, we will develop an Annual Climate Stewardship Plan. This will set clear goals of engagement with companies, fund managers, policy-makers, and other organisations of influence. We will use stewardship techniques to manage the risks and opportunities within our investment portfolio, focusing on the risks and opportunities of greatest magnitude.

⁶Please refer to the previous footnote regarding climate change risk

⁷https://theinvestoragenda.org/wp-content/uploads/2018/06/GISGCC-FINAL-for-G7-with-signatories_-update-4-June.pdf

Our monitoring and stewardship of climate-related risks and opportunities will extend to our funding risk and employer covenant monitoring.

We will collaborate with like-minded investors where possible and we will be active participants in selected collaborative initiatives where supportive of our stewardship aims.

We will make full use of our voting rights and will co-file or support climate-related shareholder resolutions.

In support of this aim, the Fund is a signatory to the 2018 Global Investor Statement on Climate Change⁷;

- increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives;
- keep up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes;
- use and encourage adoption of the Transition Pathway Initiative's (TPI) toolkit for climate change management and performance; and
- disclose using the framework recommended by the Taskforce on Climate-related Financial Disclosures (TCFD), which is recognised as best practice.

5 MEMBERSHIPS AND AFFILIATIONS

Local Authority Pension Fund Forum

The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund's Director of Pensions is currently LAPFF's Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 82 local authority pension funds and investment pools from across the country with combined assets of around £230 billion. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

- independent research and advice on the RI risks of companies to inform further stakeholder engagement;
- advice on the governance practices of companies; and
- a forum to engage with companies to improve governance practices.

Other Initiatives

The Fund is a member of Institutional Investors Group on Climate Change (IIGCC), the Pensions and Lifetime Savings Association (PLSA), Transition Pathway Initiative (TPI) and the 30% Club Investor Group. Memberships are reviewed on a regular basis.

⁷In line with Regulation 57 of the 2013 Regulations.

6 APPENDIX: GLOSSARY OF TERMS

Responsible Investment

The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and stewardship practices in the belief that these factors can have an impact on financial performance. The Fund also supports the PRI's definition of responsible investment which can be found here: <https://www.unpri.org/pri/what-is-responsible-investment>

ESG Factors

Environmental, social and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.

Governance

The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Stewardship

Refers to the responsibility of the Fund to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognises the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.

Fund

West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund

Pensions Committee

Body established by City of Wolverhampton Council (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund's assets, which has representation from the seven West Midlands metropolitan district councils and local trade unions.

Pensions Board

The role of the Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties. The Board consists of six employer and six member representatives consisting of five employer (officer) and five member (trade union) representatives together with two City of Wolverhampton councilors (one sitting as an employer representative and one as a member representative).

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules. The Fund's policies, including the *Investment Strategy Statement* and the *RI Framework*, are reviewed annually by the Pensions Board.

Ethical Investment

An approach seeking a moral or ethical return, potentially ahead of financial return

Socially Responsible/Social Impact Investments

Investments that deliver social impact as well as a financial return are often described as “social investments”.

The Fund considers opportunities in social investments alongside other opportunities and will assess their relative merits on fundamental grounds and with reference to suitability of fit for the Fund.

West Midlands Pension Fund
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WEST MIDLANDS PENSION FUND VOTING PRINCIPLES JUNE 2019



West Midlands Pension Fund

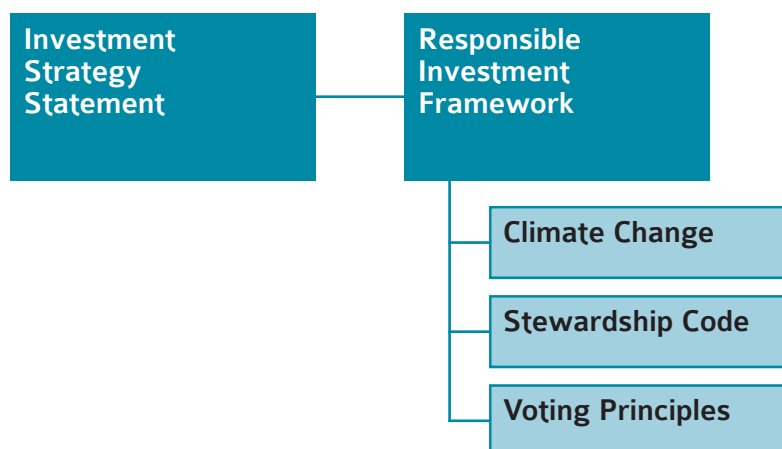
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1 CONTEXT

1.1 Purpose

This document describes West Midlands Pension Fund and the West Midland Integrated Transport Authority Pensions Fund (“the Fund”) approach to exercising its voting rights at the annual general meetings (AGM), general meetings (GM), courts and classes of the UK companies in which the Fund invests. This document supports the Fund’s ambition to be fully transparent to its stakeholders. The principles described in this document apply primarily to companies with a premium listing on the main market of the London Stock Exchange (LSE), but the principles may be extended to other investee companies as appropriate. For voting rights associated with non-UK companies, the Fund currently applies the international voting principles of the proxy research provider appointed by the investment pool company LGPS Central Limited. This document is supplementary to the Fund’s *Investment Strategy Statement*, its *Responsible Investment Framework*, *Climate Change Strategy and Framework* and its statement of compliance with the *UK Stewardship Code*.



The Fund’s *Voting Principles* have been developed in alignment with the relevant statutory guidance. The *Voting Principles* apply to those assets where the Fund holds the voting rights. Where voting rights are executed by external managers on behalf of the Fund (for instance, in pool mandates, including those operated by LGPS Central, or where the Fund has delegated authority) the Fund has reviewed and is satisfied with the voting policies of those managers. This document is owned by the Fund’s Director of Pensions, with oversight from the Pensions Committee. It is reviewed on an annual basis.

1.2 About the West Midlands Pension Funds

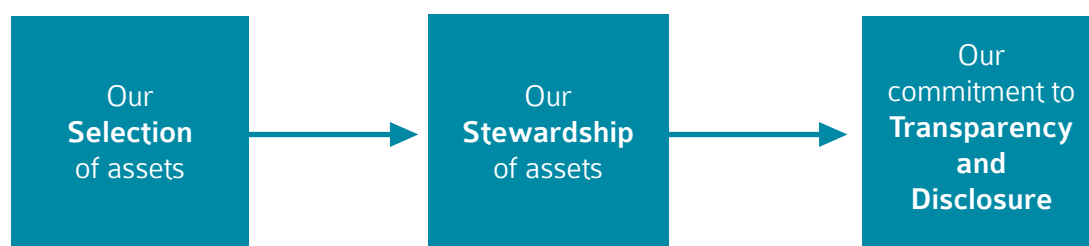
West Midlands Pension Fund (“the Fund”) is a defined benefit pension fund established under the Local Government Pension Scheme. It has over 320,000 members, total assets under management in the region of £16 billion and is administered by the City of Wolverhampton Council. The West Midlands Integrated Transport Authority Pension Fund has 5,000 members and total assets just under £500 million. The West Midlands Pension Fund administers this Fund under delegation from the West Midlands Combined Authority.

The Funds are two of nine partner funds within the LGPS Central pool, a collaboration facilitating pooled investments established under the UK government’s programme of pooling local authority pension funds. LGPS Central Limited is the investment management company established by the pool and authorised and regulated by the Financial Conduct Authority (FCA). Since April 2018, the Fund’s voting rights have been executed by LGPS Central Limited, following its adoption of a leading approach to responsible investment and stewardship aligned to the principles established by the West Midlands and other partner funds.

1.3 Responsible Investment at West Midlands

The Fund's objectives and approach concerning matters of responsible investment (RI) are set out in the Responsible Investment Framework. The Fund considers RI to be supportive of protecting and enhancing long-term returns across all major asset classes. The risks and opportunities pertaining to RI are managed through actions taken both before the investment decision (which we refer to as the Selection of investments), after the investment decision (the Stewardship of investments) together with Transparency and Disclosure.

The Fund's approach to voting is a core component of its approach to RI, and fits within the Stewardship pillar of the RI Framework.



2 CORPORATE GOVERNANCE, STEWARDSHIP AND VOTING IN THE UK

Consistently, with its approach to RI, the Fund's principles regarding corporate governance, stewardship and voting in UK markets are informed by the Fund's fiduciary responsibilities. The Fund uses its voting rights to support the long-term economic interests of its stakeholders and to ensure boards of directors are accountable to shareholders.

2.1 UK Corporate Governance Code

The UK Corporate Governance Code ("the Code") is set by the Financial Reporting Council (FRC) and outlines the standards of good practice for listed companies on board composition and development, remuneration, shareholder relations, accountability and audit.

The Fund supports the Code and believes that strong standards of corporate governance translate ultimately into healthy and stable financial markets. UK companies are expected to adhere to the Code and to provide high quality disclosure on the extent of compliance with the Code in the annual report. The Fund does not view the Code as a corporate governance "straightjacket", and companies are encouraged to use the "explain" feature of the Code where particular circumstances make deviation from the Code appropriate. Such explanations should be sufficiently detailed and transparent. Beyond the Code's provisions, it is important that companies adhere to the spirit of the Code and that boards feel empowered to make appropriate arrangements and disclosures that are suitable to the business in question. Rather than recapitulate the principles and provisions of the Code, this document focuses on areas of corporate governance and voting that require particular clarification.

2.2 Cyclical Stewardship

Voting is inherently linked to engagement, and the votes cast by the Fund at company meetings will typically reflect the outcomes of engagement activities during the year in review. Equally, a voting decision can set the tone for subsequent engagement. A vote is a process, not an event, and the Fund's approach may be described as "cyclical stewardship". The Fund's intention is that its voting decisions do not come as a surprise

to our investee companies, and dialogue with companies facilitates this, and develops a two-way relationship of trust. Where the Fund takes the decision to not support a resolution, either by abstaining or voting against, this should be interpreted by the boards of companies as an expression of strong and conscious dissatisfaction, not as a mechanical or thoughtless matter of routine. In order to send a strong signal, the Fund makes a limited, tactical use of abstain.

2.3 Market Transformation

The Fund recognises its role as a large, long-term asset owner with investment diversified across a range of geography, sector and market instruments. It has an interest in improving the standards of corporate governance within financial markets and aspires to act, therefore, in a leadership role. Where certain standards or targets set the “minimum” (for example in matters relating to the diversity of company boards) the Fund will consider voting beyond the minimum (for example by requiring a faster rate of progress on diversity within company boards).

The Fund’s voting and stewardship activities are supported by its membership of various partnership organisations.

2.4 Voting Procedures

The Fund engages a proxy research provider through LGPS Central Limited to analyse and provide advice relating to the Fund’s voting opportunities, consistently with the Fund’s policies. The provider also executes the Fund’s votes through the relevant intermediaries.

The Fund and LGPS Central have an active securities lending programme. To ensure that the Fund is able to vote all its shares at important meetings, it has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. The Fund and LGPS Central (where relevant) monitors the meetings and proportion of the securities on loan, and will restrict and/or recall lent stock in select circumstances, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock.

The Fund’s voting decisions are arrived at through a collegiate approach, incorporating the views of Fund officers as appropriate, LGPS Central, fund managers, research teams and advisers, to form an evidenced-based view on the company in question. The Fund’s votes are executed in compliance with its Conflicts of Interest policy.

2.5 Voting Disclosure

The Fund’s disclosure of its Voting Principles, and its voting outcomes, supports the Fund’s ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising the Fund’s voting activities is provided on a quarterly basis to the Fund’s Pensions Committee. Secondly, the Fund’s annual report includes disclosures on voting, as well as other aspects of RI, consistently with the statutory guidance. Thirdly, the Fund discloses its voting decision for every resolution at every eligible company meeting via the Fund website. Each of these disclosures is available to the public.

From time to time, the Fund might choose to “pre-declare” its voting intentions for particular resolutions. This might include declarations made through third party platforms, such as the platform administered by the Principles for Responsible Investment.

3 VOTING PRINCIPLES

The principles below describe the broad parameters the Fund will consider before casting its votes. They are supplementary to the principles and provisions of the Code, which is fully supported by the Fund. It is not possible for one document to cover every eventuality and this document's ambition is to serve as a guide. The Fund will override the guidelines below where this is deemed to be in the long-term economic interests of the Fund's stakeholders. Where issues are insufficiently addressed by the Code or by this document, the Fund will come to a decision using internal research and the advice of the Fund's appointed adviser and research provider.

3.1 A Great Board With a Long-Term View

Principles

Composition and Committees

Good governance starts with a great board. Led by the Chair and/or the chair of the Nominations Committee, we expect our investee companies to appoint an effective board of directors whose combined expertise is a key strategic asset to the company. We believe the most effective boards include a diversity of skills, experiences and perspectives. Through our voting decisions (and otherwise) we support the Davies Review, the Hampton-Alexander Review and the Parker Review.

Board members should be able to devote sufficient time to their directorship, should refrain from becoming "overboarded" and should attend all relevant meetings including committee meetings (audit, nomination, remuneration or other).

Non-attendance should be explained in the annual report. Overboarded directors will not be supported, even if they are from demographics that are currently underrepresented in UK boardrooms. The board should demonstrate collective awareness of material short, medium and long-run risks including, where material, climate change. The Chair should ensure the board is of an appropriate size and, while the Fund is not prescriptive on board size, would consider boards of five or fewer members, or boards of sixteen or more members, as red flags warranting further analysis. In line with the Code we expect the majority of board members, excluding the Chair, to be independent according to the criteria defined in the Code. Independence is not, however, a sufficient condition for the support of a director's election or re-election: each director must offer a valuable contribution to the functioning of the board. With regards to the so-called "nine year rule" of independence: whilst we include "a tenure of fewer than nine years" among our criteria for independence, we fully support directors that make valuable contributions to the boardroom, even if their tenure exceeds this guideline.

Consistently with the Code, boards should include nomination, remuneration, and audit committees. The latter two board committees should be composed solely of independent non-executive directors who have served on the board for at least a year, and participation by executives in these committee meetings should be by exceptional invitation only and explained in the annual report. Both the audit and the remuneration committee should have at least three members. The annual report should include a clear report from each committee Chair explaining the issues the committee has prioritised during the year in review, outlining progress made without recourse to boiler-plate language. Particular attention is paid to the overboarding of audit committee members owing to the requirement to read financial papers in sufficient detail. External advisors on remuneration and audit should be accountable to the committees, and details should be disclosed in the annual report including the nature of services provided and whether the advisor provides additional services. The Fund supports the creation of additional committees that are appropriate to the business model in question, but we do not support

unwarranted layers of governance, or the outsourcing of important issues to less experienced directors. We typically support board oversight of sustainability issues, either through committee structures or through individual responsibility. We support the election of employee representatives where this improves the quality of the board and accountability to stakeholders.

Leadership

The role of the Chair is of special significance, as is the relationship between the Chair and CEO. Accordingly, we pay particular attention to our vote on the re-election of the Chair. We support the Code's principles and provisions in relation to the role of the Chair and the eligibility of candidates. In exceptional circumstances we will support an interim Executive Chair, but expect a cut-off date to be provided, along with the appointment of a Deputy Chair and/or a strong Senior Independent Director ("SID"). Such exceptions should be discussed with shareholders and a clear and convincing rationale must be disclosed. The SID is another role of significance and we would not usually support the re-election of a non-independent SID, where independence is defined as per the Code.

Effectiveness, Evaluation & Election Process

The effectiveness of boards should be reviewed internally (by an independent director, usually by the SID) on an annual basis, and should be reviewed by an external party every three years. Companies should seek shareholder input into the process for determining board effectiveness, and the identity of the triennial external reviewer should be disclosed in the annual report. Boards and their committees should establish a suitable number of meetings per year and the location of the meetings should be appropriate to the business and to the residency of the board members. In order to preserve the board's accountability to shareholders, directors should be re-elected on an annual basis by majority vote (excepting controlled companies, where director re-election ought to follow the Code). Director biographies should be sufficiently detailed in order for voting shareholders to make an informed judgement, and the Nominations Committee reports should describe the contribution the director will make, or has made, to the board during the year.

3.2 A Transparent Audit Function, Supporting True and Fair Reporting

Principles

The audit committee of the Board plays a critical role and votes pertaining to its composition and conduct carry particular importance for shareholders. The committee should be composed of at least three independent non-executive directors with recent financial experience, and each member should have been on the board for at least a year in order to become familiar with the business. Members of the audit committee should achieve 100% committee meeting attendance and the thresholds for overboarding are stricter for audit committee members than for other directors. Attendance by executives at audit committee meetings should be by invitation only and should be explained in the annual report. We expect the audit committee to take responsibility for reviewing internal audit controls.

A company should disclose its auditor tendering policy and details of the tendering process (when it occurs). The Fund supports the EU's audit reforms, primarily that the external auditor should be independent and conflict-free (from the company and from audit committee members), and there should be regular tendering and rotation (at a minimum: tendering at least every 10 years, rotating every 20, with no re-appointment until at least four years following the rotation).

The lead audit partner should be rotated and named in the annual report. Auditor fees must be clearly disclosed and non-audit fees should not exceed 50% of total fees. Where this limit is breached, the audit committee should plan for fee reduction. Companies should not provide auditors with limited liability or indemnification. The resignation of an auditor during the financial year should be clearly explained, as should any qualifications to the annual report. There should be no material omissions. The audit committee should ensure that adequate whistleblowing procedures are in place.

As with all elements of corporate disclosure, boilerplate should be avoided at all costs. Disclosures should be clear, relevant, as concise as possible and AGM materials should be available in English in sufficient time before the meeting. We will consider voting against the annual report where disclosure falls short of the mark. We support the FRC's guidance on risk management, internal control and related financial and business reporting.

The statements of viability should be clearly disclosed. Companies should provide sufficient disclosure on material and emerging risks across a suitably long-term horizon. "Long-term" should relate to the company's business cycle and should never be limited to the next twelve months. Aside from a description of risks, the strategic report should detail the contribution and composition of the company workforce.

3.3 Stewarding our Capital, Protecting Shareholder Rights

Principles

We aim to be responsible stewards of the capital bestowed on us by our beneficiaries. In turn, we expect companies to steward the capital we provide to them with care and concern for long-term outcomes. We would like our companies to be granted the flexibility to manage their capital structure effectively and raise additional capital where necessary in a timely and cost-efficient manner. We are against giving companies unlimited authorisation to raise capital unless there is a sufficiently compelling case. We encourage companies to use the 14-day GM facility to raise extraordinary, unanticipated volumes of capital and expect prior dialogue with shareholders.

Securities that are accompanied by shareholder rights are more valuable than securities lacking these rights. Clearly, we wish to preserve or enhance this value, not fritter it away. We avoid, therefore, the unnecessary dilution of our shares and seek to preserve our rights of pre-emption. We expect resolutions pertaining to capital decisions to be split out on the proxy statement, rather than "bundled" into one resolution. We will not typically approve the creation of non-voting shares and usually vote against attempts by controlling shareholders to increase the differential between his or her level of equity ownership and voting control. Stock splits are approved on a case-by-case basis with reference to the justification disclosed by the company.

Companies ought to disclose clear dividend policies. Dividends should be sufficiently covered and put to shareholder vote. Uncovered dividends should be accompanied by an explanation covering the sustainability of the dividend or distribution policy. Companies proposing scrip issues should offer a cash dividend option. Companies ought to explain why a share buyback programme is the most appropriate method of returning cash to shareholders, including the circumstances in which a buyback will be executed. The Fund pays particular attention to share buyback programmes that could affect remuneration structures through the influence on earning per share (EPS) measurements: such structures must be buyback-neutral and buyback authorities must

be within acceptable limits, expiring no later than the following AGM. The Fund will typically vote against waivers of Rule 9 of the Takeover Code (in relation to ownership levels at which mandatory bids are required).

The Fund is unlikely to support article changes that materially reduce shareholder rights. The Fund is strongly opposed to virtual-only AGMs and views as fundamental the right to attend shareholder meetings in-person. The Fund typically opposes resolutions seeking authority to limit the jurisdiction that applies to dispute resolution.

Merger and Acquisition (M&A) decisions are made on a case-by-case basis, with reference to the long-term economic interest of scheme members and compliance with the Fund's Conflicts of Interest Policy. The Fund will consider supporting transactions with the following characteristics: long-term benefits to shareholders, good quality disclosure, high quality management, supportive independent advice, approval of the independent directors. We seek to determine whether the deal yields a good strategic fit, and we value prior engagement with shareholders. We do not support poison pills that entrench management or damage shareholder value. Introductions of poison pills should be clearly explained and put to shareholder vote.

By contrast, poison pill redemption resolutions are generally supported. We will usually vote at courts and classes in a consistent manner with our GM vote.

The Fund does not support resolutions seeking authority to make political donations, where the recipients are likely to be political parties or lobbying organisations of concern. When it comes to capital, smaller companies might be afforded greater flexibility, depending on circumstance.

3.4 Fair Remuneration for Strong Performance Through the Cycle

Principles

General

For the majority of the Fund's UK listed investee companies, shareholders are entitled to vote annually on an advisory basis on the remuneration report and (typically) every three years on the remuneration policy (where the voting outcome is binding). Our voting decisions recognise that remuneration is contextual, rather than one-size-fits-all. Companies need flexibility to design and apply remuneration structures appropriate to the business in question. There is no requirement for remuneration structures to follow traditional models if more appropriate models can be found. Whilst the structure of remuneration policies is of prime importance, we are also concerned about the quantum of pay. Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company. Levels of executive remuneration that are, or are perceived to be, excessive and unfair can be demotivating to staff and reputationally damaging to the company. Executive pay should be considered in the context of overall workforce pay and in the context of the long-term financial needs of the company, its ability to meet its dividend policy and its ongoing requirement for capital investment and R&D. Remuneration structures should be simple and easy to understand for both shareholders and executives, who need clear lines of sight as to their objectives.

Governance

A remuneration committee, composed solely of independent non-executive directors, should design and apply appropriate remuneration structures and should enter into dialogue with shareholders and employee representatives. The outcome of consultations should be made known in advance of the AGM, such that policy changes do not come as a surprise to engaged shareholders or employee representatives. Any advisors to the remuneration committee should be disclosed with an explanation of the advice provided. Multiple relationships with the company should be transparent and the external auditor should not normally perform the role of remuneration advisor. The committee should feel empowered to apply discretion appropriately (including increases and decreases) and should be aware that it is possible to gain shareholder trust through the use of restraint. Where the remuneration report or policy receive large votes against (which we currently consider to be more than 20% oppose votes among minority interests), the company should consider changes to the remuneration committee, engaging shareholders and changing remuneration advisors. The output of the remuneration committee – including remuneration policies and reports – should exhibit intelligent design and proactivity. This can be achieved through appropriate departures from traditional remuneration models including Long Term Incentive Plans (LTIPs). The remuneration committee and the nomination committee should work together on succession planning and at an early stage of the recruitment process should start to design appropriate remuneration for incoming executives. We view exceptional payments as indicative of poor planning by the remuneration committee.

Disclosure

The Chair of the remuneration committee should author a detailed but intelligible report outlining the work undertaken during the year and, where relevant, how the committee has responded to significant levels of opposition votes.

Disclosures should clearly relate remuneration structures to business strategy and should relate the levels of award to company performance, strategy, financial liabilities and over all workforce conditions. Any use of discretion should be fully explained. The median and maximum awards under the bonus scheme and incentive plans should be clear, as should the effect on EPS-based targets of share buyback schemes. The targets for variable pay, for this year and next, should be disclosed (there should be retrospective disclosure if the targets are commercially sensitive).

Structure and Fairness

Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company.

An executive's base salary should reflect his or her role and level of responsibility. Base salary should not increase significantly without a clear, compelling and exceptional justification. The rate of salary should not be solely or mainly based on quartile comparison, and we would expect salary benchmarking to occur once every three years at a maximum. Salary increases should be set in the context of wage increases to the median worker. The remuneration committee should understand how base pay increases affect the total level of pay now and in the future. Contracts should be agreed on a 12-months' basis.

Annual bonuses should have stretching, declared targets that link to company strategy. There should be consistency with the targets given prominence in the strategic report. Performance against targets should be disclosed in the remuneration report. In determining targets for variable pay, the remuneration committee should consider strategic, financial and non-financial measurements, and companies with high levels of Environmental, Social or Governance (ESG) risk should consider using ESG metrics with appropriate weightings. In general, bonuses should be reduced from their current levels, and maximum and median rewards under annual bonuses should usually be lower than rewards within LTIP schemes, reflecting the dominance of the long-term over the short-term. The payment of a significant proportion of the annual bonus in deferred shares is welcomed where this improves alignment with shareholders, does not risk excessive dilution and includes a suitable holding period. If a company experiences a significant negative event, bonus sanction should be considered even if the annual targets were met.

Incentive schemes should be transparent, understandable, long-term and appropriate to the circumstances and strategy of the company. For reasons of simplicity, companies should avoid having more than one active incentive plan. Performance conditions should ensure there is no reward for failure, nor for luck, and sufficient clawback and malus provisions should be designed and applied. The performance measurement period should have a minimum of three years, with a vesting period a minimum of three years from grant. Companies operating in sectors with long-term investment horizons should consider a performance period of more than three years. We are concerned that, despite the wide range of business models and investment horizons across UK listed companies, there are too many standard LTIP schemes with common vesting periods and performance targets, and we think this reflects a lack of intelligent design by remuneration committees. Committees should give thought to not having an LTIP and rewarding execs through a single bonus scheme which pays out in deferred shares with a holding period, based on stretching performance targets. Whether contained in an LTIP or otherwise, performance targets should not reward below-median performance and threshold vesting amounts should not be significant relevant to base salary. Where comparator groups are used, the remuneration committee should disclose why the comparators are believed to be genuinely representative (eg, with reference to their size, sector and performance). If awards depend on Total Shareholder Return (TSR) relative to overseas peers, companies should disclose fair currency conversion policies in advance of the grant. There should be several performance targets, which should relate to shareholder return, to the business strategy and include financial and non-financial elements, according to the company's current and expected operating environment. We would not expect performance conditions to be re-tested between remuneration policy reviews. Following a change of control, awards under an LTIP plan should be made pro-rata for time and performance to date; they should not automatically vest. Share-based awards should not lead to excessive dilution and exceptions to this principle should be put to shareholder vote, which ought to receive support from the majority of minority shareholders. In the event of a decline in the share price, remuneration committees should prevent accidental ("windfall") gains through top level grants through the use of downward discretion. Remuneration policies should explain the treatment of M&A and share buybacks where these are likely to impact performance targets either directly or indirectly.

In order to achieve alignment with shareholders, executives should make a material, long-term investment in company shares and these shares should be subject to a suitable holding period following an executive's departure. Companies should disclose the time by which new executives should reach the target level share ownership. Whilst these shares may be hedged or used as collateral, the company should make it clear that this is not true for share awards earned through LTIPs. Executive share ownership for alignment purposes should be distinct from shares granted under LTIPs, though exceptions may be made where shares are vested and not subject to ongoing performance conditions. Significant share sales should be rationalised in the annual report. As with all aspects of remuneration, the remuneration committee should be wary of unintended consequences, eg, effects on risk taking or risk aversion, dividend policy design and M&A. Remuneration committees should be cognisant of the significant costs and liabilities of executives' pensions contributions, the overall remuneration structure, and the tax and regulatory environment. Whilst we use a 30% contribution rate as a guideline for the upper limit, we think executive pensions contributions must set in the context of contributions for the overall workforce. Changes in actuarial assumptions that affect transfer values should be clearly disclosed. No element of variable pay should be pensionable.

Certain payments to incoming and outgoing executives cannot be avoided, but remuneration committees should be mindful of opportunities to minimise such costs in alignment with long-term shareholders. Outgoing executives should not be rewarded for failure. Severance pay consequences should be considered before appointment, such that early termination does not lead to unanticipated liabilities. We will not usually support retention payments ("golden handcuffs"), but could support deferred payments to key staff during critical periods. A clear rationale should be presented during shareholder dialogue. Similarly, compensatory payments for new appointments (including where the appointee has had to forgo expected variable pay at a previous employer) could only be considered with a clear rationale and we would expect compensation to be awarded in shares and subject to perf conditions. New appointments should normally begin on a lower salary to avoid creeping costs.

We will typically oppose tax equalisation payments where this introduces a new (net) cost to the company. We expect a cap on such payments to be disclosed.

Non-executive directors' fees should reflect the role and the level of responsibility and should not increase excessively from one year to the next. We do not expect non-executives to participate in LTIP schemes but understand that, exceptionally, directors may be granted shares at listing or pre-listing stage on a one-off basis. Share awards need a clear rationale and the policy should be applied consistently over time with conditions and parameters that ensure independence of the director's contribution. At a minimum this should include a requirement that share-based awards do not have performance conditions and are made at the market price. Additional benefits for non-executives should reflect necessary business duties only.

3.5 Miscellaneous

Principles

We are regularly called on to vote on shareholder proposals. These proposals address a range of topics including proxy access, articles of association, climate change, human rights and more. The Fund takes a case-by-case approach to shareholder resolutions and will support resolutions that are appropriately worded and, on balance, support the long-term economic interests of our stakeholders and help to make boards of directors accountable to shareholders. We consider pre-declaring our voting intentions on shareholder proposals on a case-by-case basis.

We follow the PLSA's guidance on related party transactions.

We usually support all employee share schemes, except where we have concerns over dilution.

Smaller companies and investment trusts are at different stages with respect to corporate governance arrangements, and our expectations of these companies reflect these differences in some circumstances. We are mindful of the QCA corporate governance code for smaller and medium listed companies and the Association of Investment Companies Code of Corporate Governance.

West Midlands Pension Fund
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COMPLIANCE WITH THE UK STEWARDSHIP CODE FOR INSTITUTIONAL INVESTORS JUNE 2019



West Midlands Pension Fund

INTRODUCTION

The West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund (together: 'the Fund') fully support the UK Stewardship Code ('the Code') and as part of their commitment to best practice seek to apply the principles in the Code to their investment activities.

The Code applies to both asset managers and asset owners. The Fund's adherence to and implementation of the Code is appropriate to the operating context of the Fund and the Fund's position within the investment chain. The West Midlands Pension Fund is one of the UK's largest pension funds, managing and administering the pension interests of our members and scheme employers. The Fund holds and manages a diversified portfolio of assets amounting to £16 billion (as at March 2019), targeting reliable growth over the long term, to deliver pensions for members in retirement.

Since April 2018, the Fund has undertaken stewardship activity both directly and through the LGPS Central investment pool. The Fund has transitioned a portion of its assets into pooled funds managed by LGPS Central Limited and now accesses proxy voting and engagement services through the company. The Company also complies with the Code and fully supports each of the seven principles.

This compliance statement is reviewed at least annually.

STEWARDSHIP OF THE FUND

The Fund defines the concept of stewardship in the same way as the Financial Reporting Council (FRC):

"Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."¹

In this compliance statement, the term 'responsible investment' (RI) refers to the Fund's programme of integrating financially material 'environmental, social and governance' (ESG) factors into the Fund's investment processes. 'ESG factors' may be referred to as 'responsible investment factors' throughout this document.

¹ <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Stewardship-Code-September-2012.pdf> accessed June 2019

THE FUND'S POSITION ON IMPLEMENTING THE PRINCIPLES

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund fully follows this principle.

1.1 Overview

The Fund's approach to stewardship is set out in its *Responsible Investment Framework, Investment Strategy Statement* and *Voting Policies* which are available on the Fund's website². The Fund's approach to stewardship is tailored according to its role in the investment chain. Selected details of the Fund's approach to stewardship are provided below. This is expanded in greater detail in subsequent sections as appropriate to each of the seven principles of the UK Stewardship Code.

1.2 In Detail

1.2.1 Beliefs Underpinning the Fund's Approach to Stewardship

The Fund believes that effective management of financially material responsible investment risks should support the Fund's requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach.

The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing its RI approach. The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone.

²For example, UK and Japanese Stewardship Codes

1.2.2 The Fund's Stewardship Objectives

The Fund aims to:

- 1 Be aware of and monitor financially material responsible investment issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Fund will monitor:
 - ESG issues in relation to internally managed investments (for example, equities, direct property);
 - the extent to which the external managers incorporate ESG issues into their investment processes; and
 - hold external managers to account for improvement in their ESG performance over a reasonable timeframe.
- 2 Make full use of its ownership rights, including voting and engagement activities. Either directly, collaboratively or through specialist service providers:
 - hold constructive dialogue with listed companies;
 - encourage the disclosure by companies of ESG issues; and
 - participate in the development of public policy on ESG issues.

1.2.3 Roles and Responsibilities for Stewardship at the Fund

Roles and responsibilities with respect to the discharge of stewardship activities are set out in the Fund's Responsible Investment Framework:

The Pensions Committee is at all times responsible for the Fund's investments, including oversight of the RI strategy and collaboration with other investors. Responsibility for oversight of the Fund's RI framework sits with the Director of Pensions and Assistant Director (Investments and Finance). Responsibility for the implementation of this framework sits with the Head of Investment. Implementation is supported by LGPS Central.

1.2.4 Approach to Implementing and Monitoring Stewardship at External Managers

All new Investment Management Agreements (IMAs) include requirements to adhere to the UK's Stewardship Code, where applicable.

The Fund, supported by LGPS Central, undertakes annual reviews of the ESG approaches and practices of its external equity fund managers, including the extent of the manager's active stewardship of its investees. External equity fund managers are expected to demonstrate improving levels of the integration of ESG risks into investment decision making over time. Whilst equities – the Fund's largest single exposure by asset class – represents a natural focus point for managing ESG integration within external fund managers, the Fund endeavors to monitor the stewardship of external managers across all asset classes.

Pre-Appointment

The Fund collects the following information from each manager before they are appointed where applicable to the asset class:

- Copy of their ESG, active ownership policies or equivalent which articulates how ESG factors (stemming from research, active ownership activities or other sources) are integrated into their investment process.
- Case studies or examples of where ESG issues have influenced an investment decision.
- Information on the process for integrating any third party ESG data (for example, MSCI) into their company financial models, investment strategies and portfolio construction.
- RI reporting format.
- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and Stewardship Code, copy of their PRI public report and annual assessment scores if applicable.

Post-Appointment

The Fund assesses the ESG capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, the Fund takes a balanced consideration of all relevant factors including ESG. However, the Fund will pay particular attention to adherence to relevant soft regulatory codes depending on the market in which it invests. In practice, this means the Fund is willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over time. In alignment with our guiding principles on 'engagement versus exclusion', the Fund believes that there is added value in working with them to improve their approach.

Monitoring and Reporting

Each external fund manager is expected to report at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of ESG issues into its investment and active ownership activities.
- How investment and active ownership functions are combined to protect and/or enhance shareholder value.
- How the manager exercised the Fund's voting rights.
- Any outcomes arising from the manager's engagement with companies and their effectiveness.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund fully follows this principle.

2.1 Overview

Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee meetings.

2.2 In Detail

2.2.1 Internally Managed Funds

The Fund has a conflicts of interests policy aligned with the expectations of the Financial Conduct Authority (FCA).

The FCA Handbook SYSC 10.1.3R states that a firm must take all reasonable steps to identify conflicts of interest between:

- a) the firm, including its managers, employees and appointed representatives (or where applicable, tied agents), or any person directly or indirectly linked to them by control, and a client of the firm; or
- b) one client of the firm and another client; that arise or may arise in the course of the firm providing any regulated activity or ancillary service.

The nature of the services provided by the authority may give rise to potential or actual conflicts of interests. We have put in place procedures to identify and manage potential and actual conflicts to ensure these do not adversely affect the interest of our customers and the Fund and that our actions are not influenced by interest which favour the authority, its employees or another party.

Conflicts of interests should be avoided, documented, managed and disclosed if they cannot be avoided.

Staff are provided with the Compliance Manual which sets out the types of conflicts that arise or may arise in their roles in addition to support from Compliance where there is any doubt whether there is a potential or actual conflict. All conflicts are recorded and stored by Compliance. Training is provided to all new employees and refresher training is compulsory on an annual basis.

2.2.2 Externally Managed Funds

The need to avoid conflicts of interest is also highlighted in the Fund's IMAs and contracts with external parties. Conflict of interest management forms part of the Fund's due diligence process before and after the appointment of external fund managers. The Fund obtains assurances that any potential conflicts are adequately managed, and this assurance is obtained on an annual basis following the appointment of an external manager.

Principle 3 – Institutional investors should monitor their investor companies.

The Fund fully follows this principle.

3.1 Overview

The Fund's arrangements are set out in its Responsible Investment Framework and its website³. Relevant information from the Responsible Investment Framework is presented below.

For equity holdings, the Fund uses the Local Authority Pension Fund Forum (LAPFF) as its primary engagement partner. The Fund is also supported by LGPS Central's engagement partner, Hermes EOS. Where an engagement platform is not available, the Fund will engage with its investees directly, or in collaboration with the PRI or other groups of like-minded investors. The Fund does not typically seek to become an insider in any of its quoted equity investments.

The Fund and LGPS Central hold external fund managers to account for their engagement approach as part of routine monitoring activities.

3.2 In Detail

3.2.1 Compliance with the UK Corporate Governance Code

The Fund expects UK companies to adhere to the UK Corporate Governance Code on a comply or explain basis. Further, the Fund has bespoke UK corporate governance guidelines which are available on its website, which aim to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards. The Fund expects companies outside the UK to adhere to international voting principles, recognising local application and development.

3.2.2 Understanding and Disclosure of ESG Risks

The Fund expects companies to manage and disclose its environmental and social risks to the extent required for an understanding of the development, position and performance of the company. In alignment with the Association of British Insurers' position, there are aspects of environmental and social reporting on which the Fund places particular value given their relevance across all sectors, its holistic approach to risk management, and the view that owners should not micro-manage companies.

This is narrative reporting which:

- sets ESG risks in the context of the whole range of risks and opportunities facing the company;
- contains a forward-looking perspective; and
- describes the actions of the board in mitigating these risks.

³ <http://www.wmpfonline.com/article/5708/Engagement-Through-Partnerships>

In terms of the specific environmental and social issues to focus upon, the Fund prefers to take a case-by-case, sector-based approach. Our approach on climate change risk is detailed below.

The Fund aims to engage in purposeful stewardship.

Working with our partners, we will develop an Annual Climate Stewardship Plan. This will set clear goals of engagement with companies, fund managers, policy-makers, and other organisations of influence. We will use stewardship techniques to manage the risks and opportunities within our investment portfolio, focusing on the risks and opportunities of greatest magnitude.

Our monitoring and stewardship of climate-related risks and opportunities will extend to our funding risk and employer covenant monitoring.

We will collaborate with like-minded investors where possible and we will be active participants in selected collaborative initiatives where supportive of our stewardship aims.

We will make full use of our voting rights and will co-file or support climate-related shareholder resolutions.

Principle 4 – Institutional investors should establish clear guidelines as to when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

The Fund fully follows this principle.

4.1 Overview

The Fund recognises that ‘escalating activity’ is most effective when carried out as a group; hence when necessary and typically in partnership, the Fund will escalate an engagement with directly held investee companies to protect and enhance shareholder value. Where an engagement platform is not available, the Fund will act alone to escalate engagements with its investees directly, or will enter into collaboration with the PRI or other groups of like-minded investors.

The Fund holds its external fund managers to account for their engagement approach as part of its monitoring activities, which includes any escalating activity.

4.2 In Detail

4.2.1 Issues and Escalation

The Fund, either on its own or in collaboration, engages with companies on a range of issues including governance, climate change, employment standards, tax practices, board composition, human rights, employment practices and human capital management, social risk, reputational risk.

Unsatisfactory corporate responses lead to escalation, as agreed by the appropriate investment officers at the Fund, LGPS Central or, where engagement has been conducted through LAPFF, the LAPFF Executive.

Examples of how the Fund, LGPS Central or LAPFF might escalate include:

- letter issuance;
- alert issuance;
- meetings with the management or the directors of an investee;
- attendance and raising questions at company AGM;
- collaborative engagement with other organisations, including the 30% club, UNPRI, the CDP, EITI, INCR;
- shareholder resolutions (normally only after a sustained period of engagement); and
- legal action.

4.2.2 Measuring Success

Assessments of success are measured according to the degree of a company's response to the engagement exercise. Where an engagement has been executed through LAPFF, each company response is given one of seven qualitative assessment scores (ranging from 'Dialogue Continuing' to 'Substantial Improvement') and all information is collated and reported by LAPFF. Other data collected include the seniority of the position engaged on each issue and the format of the engagement. Where an engagement has been conducted directly by the Fund of LGPS Central, qualitative assessments of the success of the engagement to date are made and reported to the Pensions Committee on a quarterly basis, for as long as the engagement takes to conclude. The statuses of collaborative engagements (including with LAPFF) are also reported to the Pensions Committee on a quarterly basis.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund fully follows this principle.

5.1 Overview

The Fund believes that collaboration with other investors on ESG issues allows the Fund to increase its impact when engaging with companies, fund managers, regulatory bodies and other stakeholders. The Fund will, however, act alone on corporate engagement where relevant.

The Fund actively works with other asset owners, fund managers, and other organisations to promote responsible investment. These include but are not limited to LAPFF, the UN-backed Principles for Responsible Investment and the Institutional Investors Group on Climate Change (IIGCC), Transition Pathway Initiative (TPI), 30% Club Investor Group, Pensions & Lifetime Savings Association (PLSA) and UK Sustainable Investment Forum (UKSIF). The Fund seeks to work collectively on engagement whenever its aims are supported by like-minded investors and where it is felt that collaborative action is more likely to result in a positive outcome.

5.2 In Detail

The Fund uses various engagement platforms to maximise its influence as an active owner in collaboration with other like-minded investors. The Fund's primary engagement partnerships are highlighted below.

5.2.1 Local Authority Pension Fund Forum

The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund's Director of Pensions is the Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing over 80 local authority pension funds and investment pools from across the country with combined assets of over £230 billion. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

- independent research and advice on the ESG risks of companies to inform further stakeholder engagement;
- advice on the governance practices of companies;
- a forum to engage with companies to improve governance practices; and
- proxy voting advice on proxy voting for annual general meetings.

5.2.2 UN-backed Principles for Responsible Investment

The Fund signed the Principles for Responsible Investment (PRI) in 2011. The PRI is a set of six aspirational principles designed to encourage and assist investors integrate ESG into their investment processes. The Fund is an active participant in the PRI's engagement program. The Fund considers the following criteria amongst others in determining its participation in PRI-related initiatives:

- Initiative is in alignment with the Fund's RI policy.
- The ESG issue or company of concern is considered to be particularly material to the Fund.
- Certain impediments (eg, geographic) make investor collaboration the preferred option.

5.2.3 Industry Engagement

In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indices and other players in the financial markets to achieve the aim of promoting sustainable growth. The Fund considers these initiatives on a case-by-case basis.

5.2.4 Roles and Responsibilities

The Pensions Committee is at all times responsible for the Fund's investments, including oversight of the RI strategy and collaboration with other investors. Responsibility for oversight of the Fund's RI framework sits with the Director of Pensions and Assistant Director (Investments and Finance). Responsibility for the implementation of this framework sits with the Head of Investment, supported by LGPS Central.

Principle 6 – Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund fully follows this principle.

6.1 Overview

The Fund's voting approach and associated policies can be found in full on the Fund's website⁴. Further details are provided below. The Fund releases a report summarising its voting activities on a quarterly basis, details of which can be found on the Fund's website. The Fund also discloses its voting activity on a vote-by-vote basis, via an online portal. Voting reports are also presented to the Pensions Committee on a quarterly basis.

6.2 In Detail

6.2.1 Voting Globally

Where practical, the Fund aims to vote in every single market in which it invests. In the interests of sending a consistent signal to investee companies, the Fund has decided to use a third party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests.

Further details of the fund's Voting Policy and current guidelines are set out in the Responsible Investment Framework and Voting Principles available on the Fund website.

The Fund currently uses a proxy voting agency, appointed by LGPS Central Limited for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. The Fund has its own detailed West Midlands UK Voting Policy which aims to deal with issues that are either not covered by the UK Corporate Governance Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards. For the remaining markets in which we invest, we currently endorse the proxy voting providers International Shareholder Voting Principles.

The Fund is committed to transparency with respect to its voting activity. To that end, the Fund discloses its voting activities on a vote-by-vote basis via its website.

The Fund produces a summary report on a quarterly basis, which is disclosed on the Fund's website and is reported to the Pensions Committee.

6.2.2 Securities Lending Programme

The Fund has an active securities lending programme. To ensure that the Fund is able to vote all its shares at important meetings has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. The Fund monitors the meetings and proportion of the securities on loan, and will restrict and/or recall lent stock in select circumstances.

⁴<http://www.wmpfonline.com/article/5693/Voting-Globally>

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

The Fund fully follows this principle.

7.1 Overview

The Fund's website provides information on its responsible investment commitments and evidence of implementation of its stewardship responsibilities. Reports are taken quarterly to Pensions Committee on responsible investment activities⁵.

A section in the Annual Report is devoted to reporting on the Fund's responsible investment activity, including an annual summary of its voting and engagement activity⁶. The Fund also discloses its voting activity on a vote-by-vote basis, via an online portal.

7.2 In Detail

7.2.1 External Reporting

Voting

The Fund is committed to transparency with respect to its voting activity. To that end, the Fund discloses its voting activities on a vote-by-vote basis.

The Fund releases a report on its voting activities on a quarterly basis and this is also disclosed on the Fund's website⁷. The quarterly voting report is provided to the Pensions Committee.

Engagement

The engagement activities of the Fund are disclosed via the collective bodies through which the Fund executes its corporate engagement activities (notably LGPSC Central, LAPFF and the PRI) as well as via the Fund's Annual Report and Accounts which is available on the Fund's website. Data on engagement themes, status/success of each engagement and the engagement format used are reported to show the effectiveness of each engagement.

7.2.2 Internal Reporting

Data on engagement and voting are reported to the Pensions Committee on a quarterly basis. The Pensions Committee is made aware of the extent of the Fund's voting through the quarter, the way in which the fund has voted and the extent to which the fund has supported the company's resolutions.

The Pensions Committee is made aware of new and ongoing engagement activities either undertaken by the Fund or by the Fund's engagement partners. Engagement themes are reported to the Pensions Committee each quarter until their conclusion.

⁵ <http://www.wmpfonline.com/article/5062/Member-Engagement>

⁶ <http://www.wmpfonline.com/annualreports>

⁷ <http://www.wmpfonline.com/article/5693/Voting-Global>

7.2.3 Accreditation and Credentials

LGPS Central

From April 2018, Fund assets have started to transition into the LGPS investment pool, LGPS Central Limited. The pool company LGPS Central Limited (“Central”), established by the Fund and seven regional partners to operate collective investment vehicles through which the Fund may invest, has developed a leading approach to RI and supports Partner Funds in the execution of their individual RI policies. RI integration features in the investment process for all major asset classes, a suite of RI policies are in place together with a supporting engagement provider and regular monitoring and reporting.

Central supports the Fund in implementation of RI policy both through fund management arrangements and in an advisory capacity, supplementing and building on the collective action of the Fund and its own partnerships.

LAPFF

The Local Authority Pension Fund Forum (LAPFF) is the UK’s leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together over 80 LGPS funds and investment pools from across the country with combined assets of over £230 billion. The Forum provides a unique opportunity for Britain’s local authority pension funds to discuss investment issues and shareholder engagement. PIRC Ltd. is currently the research and engagement partner to LAPFF. PIRC has been awarded ‘Tier 1’ status by the FRC⁸ for PIRC’s stewardship activities and implementation of the Stewardship Code and is signed up to the Best Practice Principles for Proxy Advisers⁹. PIRC is regulated by the Financial Conduct Authority.

Contacting West Midlands Pension Fund

For queries relating to the Fund’s compliance with the UK Stewardship Code, including queries from other investors relating to collaborative stewardship, please contact responsibleinvestment@wolverhampton.gov.uk

For general queries, please contact pensionfundenquiries@wolverhampton.gov.uk

⁸ <https://www.frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements/Service-Providers.aspx>

⁹ <http://pirc.co.uk/about-us-1/files/PIRC%20Best%20Practice%20Principles%202014.pdf>

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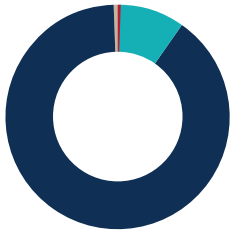


January to March 2019

Voting report

Over the last quarter, we voted at 390 meetings (4,409 resolutions). At 82 of those meetings, we opposed or abstained one or more resolutions. We recommended voting with management by exception at six meetings and abstaining at three meetings. We supported management on all resolutions at the remaining 199 meetings.

Global
We voted at 390 meetings (4,409 resolutions) over the quarter.



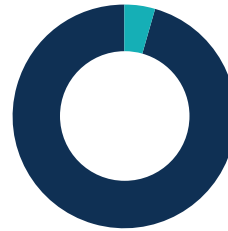
■ Abstain	0.3%
■ Against	9.6%
■ For	89.8%
■ Withheld	0.3%

Global votes against and abstentions by category
We recommend voting against or abstaining on 424 resolutions over the last quarter



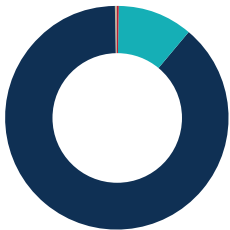
■ Board structure	47.4%
■ Remuneration	29.2%
■ Shareholder resolution	5.4%
■ Capital structure and dividends	2.4%
■ Amend articles	1.9%
■ Audit and accounts	7.8%
■ Other	5.9%

United Kingdom
We voted at 49 meetings (629 resolutions) over the quarter.



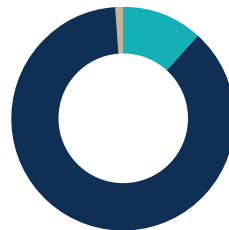
■ Against	4.6%
■ For	95.4%

Europe
We voted at 69 meetings (1,279 resolutions) over the quarter.



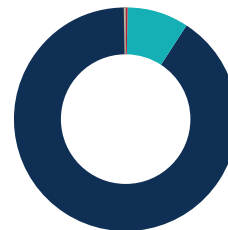
■ Abstain	0.5%
■ Against	10.8%
■ For	88.6%
■ Withheld	0.1%

North America
We voted at 45 meetings (507 resolutions) over the quarter.



■ Against	11.7%
■ For	87.2%
■ Withheld	1.1%

Developed Asia
We voted at 187 meetings (1,623 resolutions) over the quarter.



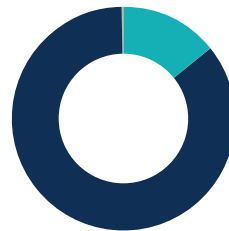
■ Abstain	0.4%
■ Against	8.9%
■ For	90.4%
■ Withheld	0.3%

Australia & New Zealand
We voted at one meeting (four resolutions) over the quarter.



■ Against	25.0%
■ For	75.0%

Emerging Markets
We voted at 39 meetings (367 resolutions) over the quarter.



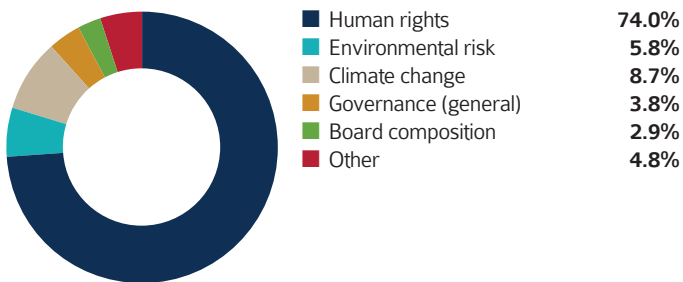
■ Against	14.2%
■ For	85.6%
■ Withheld	0.2%

January to March 2019

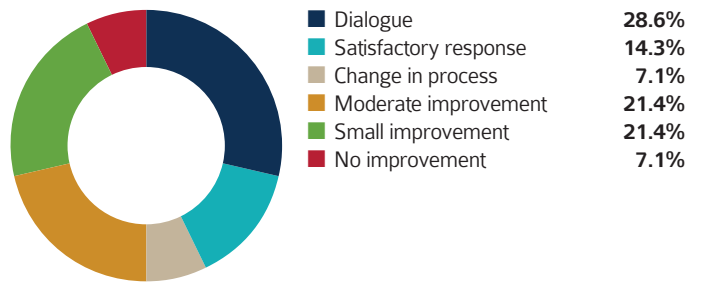
Engagement summary

Over the last quarter, the Local Authority Pension Fund Forum (LAPFF) engaged with 104 companies on a range of environmental, social and governance issues on behalf of the Fund and other members. Where applicable, LAPFF will engage with companies on more than one issue simultaneously. The engagements included in these figures are supplementary to our voting-based engagements during proxy season.

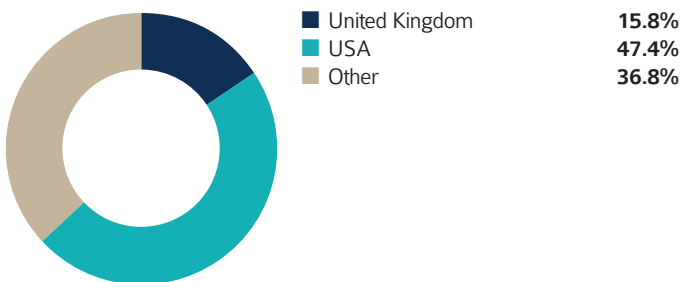
Engagement by topics



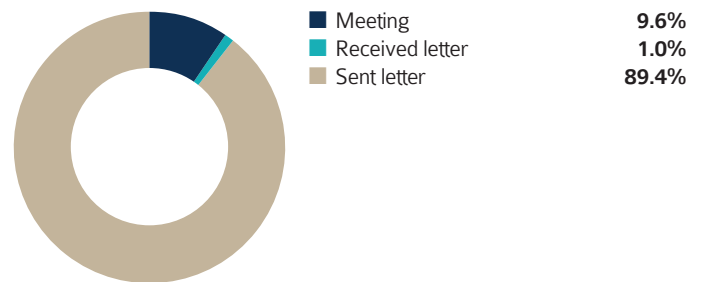
Engagement by outcomes



Engagement by domicile



Engagement by activities



CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report title	Statement of Accounts 2018/19	
Originating service	Pension Services	
Accountable employee(s)	Jill Davys	Assistant Director, Investments and Finance
	Tel	01902 555055
	Email	jill.davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Committee is recommended to approve:

1. The draft Statements of Accounts for the year ending 31 March 2019.

Recommendations for information:

The Committee is asked to note:

- 1 The draft accounts have been certified by the Section 151 Officers as required by regulations.
2. The draft Annual Report and Accounts for West Midlands Pension Fund will now be subject to audit by the Fund's external auditors, Grant Thornton, with the final version, including their audit opinion to be reported to the Committee in September.
3. The audit of the accounts for the West Midlands ITA Pension Fund is nearing completion and the auditors anticipate issuing an unqualified opinion.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the draft Statement of Accounts for the year ending 31 March 2019.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce a statement of accounts by 31 May each year. These must be subject to external audit and published no later than 31 July.
- 2.2 In preparing their accounts, funds must have regard to proper practice and to any guidance which has the effective standing of 'statutory guidance'. These are for the statement of accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' (CIPFA) ('the Code').
- 2.3 As well as being published in the Fund's own annual report, its accounts must be included in the Statement of Accounts of the Administering Authority (in this case, the City of Wolverhampton Council or West Midlands Combined Authority). It is important to note that the transactions and balances of the funds are completely separate and not combined with those of the Administering Authority.
- 2.4 The draft accounts are required to be certified by the Section 151 Officer on or before 31 May following the year-end. This certification was given by the City of Wolverhampton Council's Director of Finance on 31 May 2019 and by the Combined Authority's Interim Finance Director on 20 May 2019.
- 2.5 The Committee will receive a further report in September which will present the final version of the Statement of Accounts for publication with the Annual Report and the findings of the external auditor's work including their audit opinion. Under the City of Wolverhampton Council's constitution, formal approval of the audited Statement of Accounts rests with its Audit Committee; this does not apply to the other parts of the Annual Report which will be presented to Pensions Committee for approval.

3.0 Accounts Closure and Preparation of the Annual Report

- 3.1 Despite challenging deadlines and a number of conflicting pressures, the Fund has succeeded in preparing its draft statement of accounts within the statutory deadline. This is due to careful planning, resource management and close monitoring.
- 3.2 A combined annual report is being prepared which contains the reports and accounts for both West Midlands Pension Fund and the Integrated Transport Authority (ITA) Pension Fund in the same document. This will be available for the September meeting of the Pensions Committee.

3.3 With effect from 2017/18, the accounts closure timetable was brought forward significantly with certification of draft accounts required by the end of May and the audited accounts to be published by the end of July. The Fund is well-positioned to meet these timescales having achieved the end of May deadline already. In line with the approval by this Committee at its meeting on 27 March, authority has been delegated to the Chair of Pensions Committee to approve the final publication of the 2018/19 Annual Report and Accounts following audit in July and approval of the draft by Committee in June.

3.4 The Fund's external auditors have been undertaking some interim work with the Fund, testing the investment and contributions data reconciliations prior to finalisation of the accounts. Grant Thornton will be in attendance at the Committee meeting to provide an update on the interim work and early testing post closure of the accounts on 31 May 2019 and to address any queries in relation to their work for the 2018/19 audit.

4.0 Draft Statement of Accounts 2018/19

4.1 The purpose of the Statement of Accounts is to report the Fund's financial performance for the year and its balances and reserves at the year-end. There are two primary statements: the Fund Account, which is concerned with transactions during the year and the Net Assets Statement which reports balances at the year-end. These are supplemented by a series of notes to the accounts which expand on items in the primary statements or provide further information about the Fund.

4.2 During 2018/19, the main Fund grew in value by £294 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Net gains in the value of investment assets	445
Investment income receivable	237
Bulk transfer into the Fund	14
Sub total Net Increases	696
Net contributions receivable/benefits payable	(307)
Management expenses charged to the Fund	(87)
Net transfer of members out of the Fund	(8)
Sub total Net Decreases	(402)
Total Increase in the Fund	294

4.3 It is worth noting that the balance of contributions and benefits is negative in 2018/19 – the £307 million shown in the table above – this is because most of the Council bodies had already paid three years Future Service and Past Service Deficit contributions in advance last year and these were reported in the 2017/18 accounts. The balance between the two is likely to be negative again in 2019/20. The figure for contributions receivable also includes £24.2 million paid by employers to cover early retirement strain costs, reflecting the additional contributions received as a result of employer staffing decisions taken during the year.

- 4.4 Net assets of the main Fund at 31 March 2019 stood at £15.7 billion, up from £15.4 billion at 31 March 2018. This comprised investment assets of £15.6 billion, and working balances of £139 million.
- 4.5 The Fund has taken the option under the Code to disclose the present value of all fund employer pension liabilities in a note to the accounts. This value, calculated on an IAS 19 basis, stood at £22.4 billion at 31 March 2019. This is a slight increase on the 31 March 2018 figure of £22.1 billion due to adjustments to the actuarial assumptions.
- 4.6 The draft Statement of Accounts for the West Midlands Pension Fund are attached at Appendix A and have now been passed across to the external auditors.
- 4.7 The ITA Fund decreased in value by £0.3 million. The reasons for this were:

	Increase/ (Decrease) in Fund £m
Investment Income	17.2
Sub Total Net Increases	17.2
Net contributions receivable/pensions payable	(16.1)
Management expenses charged to the Fund	(1.0)
Net decrease in the value of investment assets	(0.4)
Sub Total Net Decreases	(17.5)
Total decrease in the Fund	(0.3)

- 4.8 Benefits payable exceeded contributions receivable by a significant margin reflecting the maturity of the ITA Fund and the fact that it is a closed fund.
- 4.9 Net assets of the ITA Fund at 31 March 2019 stood at £491.7 million, down slightly from £492 million at 31 March 2018. This comprised investment assets (including annuity buy-in contract) of £488 million and working balances of £3.7 million.
- 4.10 The WMITA Statement of Accounts was provided to the auditors on 20 May with the audit being mostly completed by 4 June and a final Statement of Accounts to be issued shortly. The draft unaudited statements are included at Appendix B.

5.0 Investment Management Costs 2018/19

- 5.1 CIPFA guidance, introduced in 2014, requires the disclosure of all investment management costs including fees which are deducted at source by external investment managers. External investment management costs deducted at source saw a significant increase on the prior year at £62.2 million up from £44.7 million, whilst some of this reflects growth in assets under management and performance fees, additional

transparency on 'hidden costs' has meant the Fund has been able to capture greater detail on costs. The Fund has been working closely with the PLSA, the Investment Association and Scheme Advisory Board on the new cost transparency initiative and was part of the trial group working on the cost templates launched to encourage and enable greater transparency of investment costs across the pensions industry. Whilst the Fund has historically taken a transparent approach with investment management costs as far as possible, the new cost capture templates that have been developed have enabled even higher levels of cost transparency from the investment managers, most notably in the recording of transaction costs associated with turnover within individual portfolios. The following table analyses the total investment management costs reported above:

	Actual 2017/18 £m	Actual 2018/19 £m
External Investment Management Costs – Invoiced	11.4	13.3
External Investment Management Costs – Deducted at Source	44.7	62.2
External Investment Management Costs – LGPS Central	-	3.8
Total External Investment Management Costs	56.1	79.3
Internal Investment Management Costs	2.8	0.6
Total Investment Management Costs	58.8	79.9

5.2 LGPS Central Ltd costs can be split between investment management costs, advisory and execution service costs and company governance and oversight costs as set out in the table below:

Advisory & Execution £m	Governance & Operator £m	ACS sub- funds £m	LGPS Ltd Total Costs £m
0.8	2.1	0.9	3.8

5.3 For WMITA, Investment Management expenses increased on prior year due to a change in the investment strategy for the Fund which saw assets transitioned from passive equity to multi-asset credit to reduce the overall risk in the portfolio. This resulted in higher investment management costs provided in the table below:

	Actual 2017/18 £m	Actual 2018/19 £m
Total External Investment Management Costs	0.668	0.800
Internal Investment Management Costs	0.030	0.030
Total Investment Management Costs	0.698	0.830

6.0 LGPS Central Set-Up Costs

6.1 In January 2019, the Fund settled further costs related to the set-up of LGPS Central Limited amounting to £355,393. These costs are being shared, on an equal-eighths basis with the other seven partner funds. The final total of set up costs was declared at £4.014m and West Midlands Pension Fund was reimbursed its share of £501,759 by LGPS Central Limited in February 2019.

7.0 Financial implications

7.1 The financial implications are discussed in the body of the report.

8.0 Legal implications

8.1 The Statement of Accounts of the Administering Authority (of which the Fund's accounts form part) must be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2015. The audit of the financial statements will be undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.

9.0 Equalities implications

9.1 This report has no equalities implications.

10.0 Environmental implications

10.1 This report has no environmental implications.

11.0 Human resources implications

11.1 The report has no human resources implications.

12.0 Corporate landlord implications

12.1 This report has no corporate landlord implications.

13.0 Schedule of background papers

13.1 Budget 2019/20 and Financial Plan to 2023/2024, Report to Pensions Committee, 27 March 2019
<http://wolverhampton.moderngov.co.uk/documents/s104043/Budget%2020192020%20and%20Financial%20Plan%20to%2020232024.pdf>

14.0 Schedule of Appendices

14.1 Appendix A – Draft Statement of Accounts 2018/19 WMPF

14.2 Appendix B – Draft Statement of Accounts 2018/19 WMITA

Appendix A

WEST MIDLANDS PENSION FUND STATEMENTS FOR THE YEAR ENDING 31 MARCH 2019

Fund Account

2017/18 £m		Note	2018/19 £m
	Contributions & Benefits		
(1,205.9)	Contributions Receivable	P8	(272.7)
(25.6)	Transfers In	P9	(43.5)
(14.5)	Other Income	P10	(14.5)
(1,246.0)	Total contributions and other income		(330.7)
555.9	Benefits Payable	P11	589.7
41.0	Payments to and on account of leavers	P12	37.3
0.7	Other Payments		4.4
597.6	Total benefits and other expenditure		631.4
66.8	Management Expenses	P13	87.4
	Returns on Investments		
(248.7)	Investment Income	P14	(237.9)
7.7	Taxes on income		0.7
312.8	Changes in Value of Investments	P16	1,557.0
(615.6)	Profits and Losses on Disposal of Investments		(2,002.2)
(543.8)	Net return on investments		(682.4)
(1,125.4)	Net (Increase) in the Fund During the Year		(294.3)
14,294.4	Net Assets of the Fund at the beginning of the year		15,419.8
15,419.8	Net Assets of the Fund at the end of the year		15,714.1

Net Assets Statement

31 March 2018 £m		Note	31 March 2019 £m
	Investment Assets (at Market Value)	P15	
188.5	Bonds		339.8
1,494.2	UK Equities		40.0
6,343.5	Overseas Equities		1,301.3
5,351.9	Pooled Investment Vehicles		11,481.8
862.8	Property		980.7
-	Derivatives - Futures		20.7
44.9	Derivatives - Forward Foreign Exchange		1.0
126.0	Foreign Currency Holdings		690.6
830.1	Cash Deposits		821.8
0.4	Other Investment Assets		51.8
45.2	Outstanding Dividend Entitlement and Recoverable With-Holding Tax		0.5
15,287.5	Investment Assets		15,730.0
	Investment Liabilities (at Market Value)	P15	
	Derivatives - Forward Foreign Exchange		(2.8)
-	Other Investment Liabilities		(152.1)
-	Investment Liabilities		(154.9)
15,287.5	Net Investment Assets		15,575.1
0.1	Long Term Investments		-
25.1	Long-Term Debtors	P19	113.7
151.4	Current Assets	P20	47.3
(44.3)	Current Liabilities	P21	(22.0)
15,419.8	Net Assets of the Fund at the end of the year		15,714.1

The accounts summarise the transactions of the Fund and deal with the net assets at its disposal. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed at note 6.

The notes form part of these financial statements.

Notes to the Pension Fund Statements

Note P1 - General

The description in this note is a high-level summary of the Fund's activities and more detail is available in the Fund's Annual Report which can be found on its website at: <http://www.wmpfonline.com/article/4764/Annual-Reports>.

West Midlands Pension Fund is part of the Local Government Pension Scheme and is administered by the City of Wolverhampton Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund. Membership of the Fund is available to all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region together with employees of scheduled and admitted bodies. At 31 March 2019, the Fund had 673 participating employers and 323,795 members as set out in the following table. A full list of participating employers can be found in the Fund's Annual Report.

31 March 2018		31 March 2019	
No.		No.	
118,093	Active Members	121,035	
91,741	Pensioner Members	95,991	
103,565	Deferred Members	106,769	
313,399	Total	323,795	

The responsibility for administering the Fund is delegated to the Council's Pensions Committee. It meets at approximately quarterly intervals and has members from each of the seven metropolitan district councils in the West Midlands. A Pensions Board was also in operation during 2018/19. Membership of the Committee and Board can be found on the City of Wolverhampton Council website: <http://wolverhampton.moderngov.co.uk/mgListCommittees.aspx?bcr=1>

The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- (i) The Local Government Pension Scheme Regulations 2013 (as amended)
- (ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
- (iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016

The scheme is a contributory defined benefit pension scheme. Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. In addition to employee contributions, employers' contributions are paid as set based on triennial actuarial funding valuations. The valuation in relation to 2018/19 contribution rates was conducted at 31 March 2016. Employer contribution rates during 2018/19 ranged from 10.2% to 44.7% of pensionable pay.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE) with an accrual rate of 1/49th and pensions updated annually in line with the Consumer Price Index. Pension entitlements accrued prior to this date continue to be based on final salary.

Further to direction from government, local authority investment pools have been created to bring together the investment assets of local authority pension funds into eight Investment Pools. LGPS Central Limited (LGPSC), the company established to manage investments on behalf of nine LGPS funds including West Midlands Pension Fund, received authorisation from the Financial Conduct Authority in 2018 and the LGPS Central regional asset Pool went live on 1 April 2018.

The Pool's first 3 sub-funds covering passive equity assets were launched at the start of April and on 3 April 2018, following approval from Pensions Committee, West Midlands Pension Fund transitioned assets to the value of £4.886bn and cash of £247m to the LGPS Central sub-funds.

In January 2019, the Fund agreed to a commitment of £200m in the LGPS Central Limited - Private Equity Scottish Limited Liability Partnership. No investments were actually made during the 2018/19 financial year as the first call on the commitment came in April 2019.

In February, the Fund, along with five other LGPS Central Pool Partner Funds, transitioned a further £789m of assets to the LGPS Central Limited - Global Equity Active Multi-Manager sub-fund.

Work is underway to develop further LGPS Central Limited sub-funds in collaboration with LGPS Central Pool Partner Funds and the Fund will continue to review the decision to transition assets on a case by case basis dependent on the sub-fund meeting the strategic requirements of WMPF. The transition of the Fund's remaining assets into products offered by LGPS Central Limited is expected to take several years.

Following the transfer of in-house investment and finance team members to LGPS Central Limited on 1 April 2018, West Midlands Pension Fund retained LGPS Central Limited to provide advice and execution services on a number of legacy portfolios. It is likely that some of these advisory and execution mandates will continue to remain in place for some period due to the illiquid nature of the investments and the cost effectiveness of transition.

Note P2 - Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its financial position as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note P6 of these accounts.

Note P3 - Statement of Accounting Policies

A. Fund account

In the Fund Account, income and expenditure are accounted for in the year in which they accrue by the creation of payables and receivables at the year end where necessary. Provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year end (see note P9).

B. Contribution income

Contributions receivable have been included in the accounts on the accruals basis at the rates recommended by the Fund's actuary for basic contributions. Additional contributions (including past service deficit contributions and excluding additional voluntary contributions) as notified by employers for the period have also been included. Past service deficit contributions are accounted for in the year in which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset with amounts due after the following year classed as long-term financial assets.

Where employing organisations have not submitted all of the certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns actually received from these bodies.

C. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who had either transferred benefits in or out of the scheme as at 31 March 2019, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are reported within transfers in.

D. Investment Income

i) Interest Income

Interest income is recognised in the Fund Account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from Pooled Funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property-Related Income

Property-related income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Changes in the Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

vi) Stock lending income

Stock lending income is accounted for on a cash basis.

E. Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

F. Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2019. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

G. Financial assets

The LGPS Central Pool trading company, LGPS Central Limited, only became licensed to trade on 1 April 2018. The Pension Fund's view is that for 31 March 2019, cost is therefore an appropriate estimate of the fair value of shares held in this company.

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 17 to the accounts). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

H. Freehold and leasehold properties

These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Savills plc (in accordance with Royal Institute of Chartered Surveyors valuation standards) as at 31 March 2019. One third of the commercial property portfolio is valued fully in March each year with the remaining two thirds being a 'desktop' valuation. Agricultural properties were valued by Browns, agricultural valuers, at the same date.

I. Foreign currencies

Investments held in foreign currencies have been valued as set out in paragraph g) above and translated at exchange rates ruling at 31 March 2019.

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2019.

J. Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

K. Movement in the net market value of investments

Any gains or losses arising on translation of investments into sterling are accounted for as a change in the market value of investments.

L. Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

M. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

N. Management expenses

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses 2016.

All administrative expenses are accounted for on an accruals basis. The costs of Fund officers are recharged to the Fund along with all other costs incurred directly on Fund activities and an apportionment for corporate support services provided by the administering authority.

All investment management expenses are accounted for on an accruals basis. External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments either being managed or in safe custody. In addition, performance-related fees are negotiated with a number of managers and the amounts of such fees are provided in a note to the accounts.

Where a management fee notification has not been received by the time of preparing these accounts, an estimate based upon the market value of the relevant mandate is used for inclusion in the Fund Account.

The cost of external investment advice is included in investment management expenses as is the cost of any 'in-house' Fund investment activity.

O. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (see note P5).

P. Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note P22).

Note P4 - Critical judgements in applying accounting policies

Unquoted private equity investments

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor valuation report has not been received from the fund manager the security is valued at cost. The value of unquoted private equity at 31 March 2019 was £1,010.4 million (£1,191 million at 31 March 2018).

Pension Fund liability

The pension fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note P6. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note P5 - Assumptions made about the future and other major sources of estimation uncertainty

Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, the Fund's consulting actuaries, are engaged to provide expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability; however, an increase in assumed earnings inflation or assumed life expectancy would significantly increase the pension liability as detailed by the Fund's consulting Actuary below:

Change in assumptions – year ended 31 March 2019	Approx. % increase in liabilities	Approx. monetary value £m
0.5% p.a. decrease in discount rate	9%	2,089.6
1 year increase in member life expectancy	4%	834.5
0.5% p.a. increase in salary increase rate	1%	217.4
0.5% p.a. increase in CPI inflation	8%	1,861.5

Fair value of investments

Uncertainties

Certain types of investments are not publicly listed and, as such, there is a degree of estimation involved in their valuation.

Effect if actual results differ from assumptions

The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/under stated in the accounts. The total value of Level 3 investments is £3,401.1m at 31 March 2019 (£3,265.3m at 31 March 2018). The assets classified as Level 3 and the sensitivity of the valuation methods employed is described in note 17.

Note P6 - Actuarial valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2016 by the Fund's Actuary, G Muir of Barnett Waddingham LLP. The Actuary has determined the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £11,569.0 million represented 81% of the funding target of £14,219.0 million at the valuation date. The valuation also showed that a primary rate of contribution of 18.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In general, the Fund applies a maximum deficit recovery period of 20 years. The aim is to achieve 100% solvency over the period and to provide stability in employer contribution rates.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report dated 31 March 2017. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

As a result of the valuation, a revised Rates and Adjustments certificate was prepared for the three years commencing 1 April 2017. For comparison purposes, the figures for the two preceding years are also shown. The minimum payable by the seven councils was certified as follows:

Future Service Rate (% of pay) plus lump sum (£)					
	2015/16	2016/17	2017/18	2018/19	2019/20
Birmingham City Council	12.9% plus £41,870,400	13.4% plus £43,724,800	15.3% plus £61,800,000 (£125.0m)	16.8% plus £61,800,000 (£124.0m)	18.3% plus £61,500,000 (£124.2m)
Coventry City Council	12.7% plus £12,395,000	13.1% plus £15,518,000	16.8% plus £12,000,000 (£31.1m)	16.8% plus £12,000,000 (£31.1m)	16.8% plus £12,000,000 (£31.1m)
Dudley MBC	12.7% plus £9,174,000	13.2% plus £10,931,000	15.4% plus £9,500,000 (£30.2m)	17.0% plus £9,700,000 (£31.3m)	18.6% plus £9,600,000 (£32.3m)
Sandwell MBC	13.1% plus £15,323,200	13.1% plus £19,227,200	14.7% plus £16,900,000 (£16.9m)	16.2% plus £17,000,000 (£17.0m)	17.7% plus £16,900,000 (£16.9m)
Solihull MBC	12.9%	13.5%	14.7% plus £5,000,000 (£15.6m)	16.5% plus £5,100,000 (£16.6m)	18.4% plus £5,100,000 (£17.4m)
Walsall MBC	13.2% plus £14,835,000	13.2% plus £15,518,000	15.4% plus £14,000,000 (£28.0m)	16.9% plus £14,800,000 (£30.2m)	18.3% plus £15,000,000 (£31.5m)
City of Wolverhampton Council	13.1% plus £9,900,000	13.5% plus £10,900,000	15.5% plus £13,300,000 (£29.2m)	16.8% plus £14,000,000	18.1% plus £14,600,000

The amounts shown in brackets are due in the year where the Council has opted to make a cash payment in advance. These amounts were received by the Fund in April 2017. The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	2016	2013
Rate of return on investments:	4.7% per annum	5.6% per annum
Rate of pay increases:	3.9% per annum	4.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.4% per annum	2.6% per annum

The assets were assessed at market value.

The latest triennial actuarial valuation of the Fund was completed at 31 March 2016 and this was conducted by the Fund's Actuary Barnett Waddingham. Based on the results of this valuation, the contribution rates payable by the individual employers were revised with effect from 1 April 2017. The Actuarial Valuation 2016 report can be found on the Fund's website by following the link www.wmpfonline.com/CHttpHandler.ashx?id=12682&p=0

Actuarial present value of promised retirement benefits for the purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose, the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, the following financial assumptions have been used:

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.55% per annum	2.40% per annum
Rate of pay increases	3.85% per annum*	3.90% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.35% per annum	2.40% per annum

* Includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £22,063.7 million. The effect of the changes in actuarial assumptions between 31 March 2018 and 31 March 2019 as described above is to increase the liabilities by £792.3 million. Adding interest over the year increases the liabilities by a further £557.4 million and allowing for net benefits accrued/paid over the period increases the liabilities by £273.3 million which includes any increase arising as a result of early retirements/augmentations. A change in mortality rates assumptions has decreased the liabilities by £1,265.2 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £22,421.5 million.

Note P7 - Taxation

1. Value added tax (VAT)

The Fund (as part of the City of Wolverhampton Council) pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

2. Taxation of overseas investment income

The Fund receives interest on its overseas bonds gross but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets.

In some markets, a lower-than-standard tax rate is available, either as a result of a double tax treaty in place between the UK and the investment country (e.g. Poland, Canada, Italy, Sweden) or based on favourable domestic legislation (e.g. Australia, Czech Republic, Singapore). Where this is the case, relief may be granted at source based on documentation already on file (e.g. USA, Belgium, Australia, Finland, France and Norway), or ex post via reclaim forms submitted to the local tax authorities (e.g. Austria, Denmark, Germany, Netherlands, Switzerland and Spain).

There are also markets where relief is not possible - either no double taxation agreement exists (e.g. Brazil, Colombia, Lebanon), or a 'subject to tax' clause prevents UK pension funds from benefiting from treaty rates (e.g. Israel, Malaysia, Portugal). In such cases, the full amount of tax is withheld and is final.

Note P8 - Contributions receivable

Contributions receivable by type

2017/18 £m		2018/19 £m	
		From employers	
619.3	Contributions		105.3
440.0	Past service deficit		40.2
0.4	Augmented membership		-
34.6	Additional cost of early retirement		24.2
1,094.3			169.7
		From members	
111.0	Basic contributions		102.3
0.6	Additional contributions		0.7
111.6			103.0
1,205.9	Total contributions		272.7

Following the actuarial valuation as at 31 March 2016, some employers chose to pay their full three-year future service and past service deficit contributions as a lump sum in 2017/18. The lump sums paid by the seven councils and accounted for last year are shown in the table in note 6. Additionally, having paid £5.5m on account in January 2018, City of Wolverhampton Council paid the balance of its 2018/19 and 2019/20 future service and past service deficit contributions by lump sum payment of £57.3m on 30 April 2018. The additional contributions above represent the purchase of added membership or additional benefits under the pension scheme.

Contributions receivable by type of employer

2017/18 £m		2018/19 £m	
55.8	Administering authority		54.8
1,113.9	Scheme Employers		190.0
36.2	Admitted employers		27.9
1,205.9	Total		272.7

Note P9 - Transfers in

2017/18 £m		2018/19 £m	
	Group transfers		14.9
25.6	Individual transfers		28.6
25.6	Total		43.5

Note P10 - Other income

2017/18 £m		2018/19 £m	
	Benefits recharged to employers		
7.8	Compensatory added years		(7.7)
6.7	Pensions increases		(6.8)
14.5	Total		(14.5)

Note P11 - Benefits payable

Benefits payable by type

2017/18 £m		2018/19 £m	
	Pensions		
410.3	Retirement pensions		434.7
28.5	Widows' pensions		29.2
1.0	Children's pensions		1.0
5.1	Widowers' pensions		5.5
0.2	Ex-spouse		0.2
0.2	Equivalent pension benefits		0.2
0.2	Co-habiting partners		0.3
445.5	Total pensions		471.1
	Lump sum benefits		
98.8	Retiring allowances		106.0
11.6	Death grants		12.6
110.4	Total lump sum benefits		118.6
555.9	Total benefits payable		589.7

Benefits payable by type of employer

2017/18 £m		2018/19 £m	
45.0	Administering authority		49.8
469.7	Other scheduled employers		490.6
41.2	Admitted employers		49.3
555.9	Total		589.7

Note P12 - Payments to and on account of leavers

2017/18 £m		2018/19 £m	
36.4	Individual transfers		32.7
-	Group transfers		
1.7	Refunds of contributions		1.9
0.1	State scheme premiums		0.1
2.8	Bulk pension transfer increases		2.6
41.0	Total		37.3

Note P13 - Management expenses

2017/18 £m		2018/19 £m	
3.8	Administrative costs		5.1
58.9	Investment management expenses, comprising:		79.9
44.6	- Management fees	47.5	
11.4	- Performance-related fees	13.0	
2.3	- Transaction costs	15.2	
0.6	- Custody fees	0.4	
-	- LGPS Central Limited	3.8	
2.8	Oversight and governance costs		2.4
1.3	LGPS Central		-
66.8	Total management costs		87.4

Included in administrative costs of £5.1m above are external audit fees of £50,438 (2017/18: £48,618). The charge for 2018/19 comprises the current year audit fee of £37,438 and £13,000 invoiced by Grant Thornton for additional audit work required in 2017/18.

Performance related fees are negotiated with a number of managers. Included in external management of investments are performance related fees of £15.2 million in 2018/19 and £11.4 million in 2017/18.

The guidance requires that external investment management fees that are deducted from asset values (rather than invoiced and paid directly) are shown gross. Wherever possible, the figures are based on actual costs disclosed by the manager; where actual costs were not available, best estimates have been made using other available information.

Note P14 - Investment Income

2017/18 £m		2018/19 £m	
	Dividends and Interest		
	<u>Bonds</u>		
7.7	UK private sector – quoted		7.5
	<u>Equities</u>		
58.0	UK private sector – quoted		9.2
142.9	Overseas		51.9
	<u>Pooled Investment Vehicles</u>		
14.9	UK private sector – quoted		103.1
0.3	Overseas equities		7.0
2.9	Interest on cash deposits		5.2
2.9	Stocklending		0.9
0.9	Other investment income		0.5
230.5	Total dividends and interest		185.3
23.8	Property management income		62.5
(5.6)	Property management expenses		(9.9)
18.2	Total property management		52.6
248.7	Total investment income		237.9

Stocklending

The stock lending programme provides for direct equity investments to be lent. At the year end the value of quoted equities on loan was £215.8m (2018: £353m) in exchange for which the custodian held collateral worth £238.6m (2018: £394.8m) representing 111% of stock lent (2018: 112%). These equities continue to be recognised in the Fund's financial statements and the collateral consists of acceptable securities and government debt.

During the period the stock is on loan, the voting rights on the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

Other investment income

Other investment income includes the following; Class action income, liquidation proceeds and tax refunds.

Note P15 - Net investment assets

31 March 2018 £m		31 March 2019 £m
	Bonds	
188.5	UK companies – segregated (external)	187.9
	Overseas Sovereign - Index Linked	151.9
188.5		339.8
	UK equities	
1,492.2	Quoted	38.0
2.0	Unquoted	2.0
1,494.2		40.0
	Overseas equities	
4,627.8	Quoted	27.5
1,715.7	Quoted – segregated (external)	1,273.8
6,343.5		1,301.3
	Pooled investment vehicles	
	Managed funds	
563.1	UK fixed interest	584.8
820.1	Other fixed interest	1,112.3
872.3	UK quoted, index linked	920.6
	UK quoted equities (pooled assets)	1,244.1
-	Overseas quoted equities (pooled assets)	4,723.9
610.0	Infrastructure	818.5
1,191.0	Private equity	1,010.4
553.2	UK absolute returns	530.4
48.3	Overseas absolute returns	61.0
51.4	UK property	60.0
170.6	Overseas property	167.5
	Unit trusts	
162.1	UK quoted equities	162.8
302.7	Overseas equities	85.3
7.1	Overseas property	0.2
5,351.9		11,481.8
	Property	
806.8	UK freehold	934.2
56.0	UK leasehold*	46.5
862.8		980.7
	Derivative contracts	
-	Futures	20.7
44.9	Forward currency contracts	1.0
44.9		21.7
	Foreign currency holdings	
2.2	Australian dollars	0.5
0.5	Canadian Dollars	0.6
0.5	Czech Koruna	1.0
0.7	Danish Kroner	0.5
11.5	Euro	208.8
0.6	Hong Kong Dollars	239.4
0.6	Hungarian Forints	0.5
1.1	Japanese Yen	5.4
0.6	New Zealand Dollars	0.5
0.6	Norwegian Kroner	0.5
0.5	Polish Zloty	0.5
0.6	Singapore Dollars	0.8
3.5	Swedish Kroner	2.9
4.1	Swiss Francs	3.1
0.6	Turkish Lira	0.6
97.8	United States Dollars	225.0
126.0		690.6
	Cash deposits	
830.1	UK	488.0
-	US	333.8
830.1		821.8
	Other investments	
0.4	Broker balances	51.8
45.2	Outstanding dividend entitlement and recoverable with-holding tax	0.5
45.6		52.3
15,287.5	Total investment assets	15,730.0
	Investment liabilities	
	Derivative contracts	
-	Forward currency contracts	(2.8)
-		(2.8)
	Other liabilities	
-	Amounts payable for purchases	(152.1)
-		(152.1)
-	Total investment liabilities	(154.9)
15,287.5	Net investment assets	15,575.1

* All leasehold properties are held on long leases

Segregated accounts are held separately from the main account by the global custodian and contain assets managed by some of the Fund's external managers.

The following investments represent more than 5% of the net assets of the Fund. All of these companies are registered in the UK.

31 March 2018			31 March 2019		
Market value	% of total market value		Market value	% of total market value	
£m	%		£m	%	
		Security			
-	-	LGPS Central Global Ex UK Passive Equity Fund	3,649.8	23.5	
-	-	LGPS Central Global UK Passive Equity Fund	1,244.1	8.0	
-	-	LGPS Central Global Equity Active Multi-Manager Fund	791.2	5.1	
773.9	5.1	Legal & General - All Stocks Index-Linked Gilts Fund	920.6	5.9	

The proportion of the market value of investment assets managed in the regional asset pool and by each external manager at the year-end is set out below.

31 March 2018			31 March 2019		
Market value	% of total market value		Market value	% of total market value	
£m	%		£m	%	
Investments managed by LGPS Central Limited regional asset pool:					
-	-	Global equities	4,723.9	30.4	
-	-	UK equities	1,244.1	8.0	
-	-		5,968.0	38.4	
Investments managed outside of LGPS Central Limited regional asset pool:					
7,986.2	52.4	In-house	2,579.3	16.6	
162.1	1.1	Managers: UK quoted	162.8	1.0	
1,232.0	8.1	Managers: emerging markets	1,273.8	8.2	
786.4	5.2	Managers: global equities	85.3	0.5	
2,444.0	16.0	Managers: fixed interest	2,805.6	18.2	
229.1	1.5	Managers: indirect property	227.7	1.5	
610.0	4.0	Managers: infrastructure funds	818.5	5.3	
601.5	3.9	Managers: absolute return	591.4	3.8	
1,191.0	7.8	Managers: private equity	1,010.4	6.5	
15,242.3	100.0		9,554.8	61.6	
45.2		Outstanding dividend entitlement and recoverable with-holding tax	52.3		
15,287.5		Net investment assets	15,575.1		

ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

During the year the Fund approved the use of both forward foreign currency hedging and exchange traded futures contracts for the purpose of hedging exposures to reduce risk in the Fund and to gain exposure to assets more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

a) Futures

During the year, the Fund made a decision to transition assets out of an internal global equity portfolio and into a new sustainable global equities mandate. Recognising that there would be some lead time in implementing this strategy, as and when the existing portfolio was realised, proceeds were invested in global equity futures pending transition to the sustainables mandate. The Fund has also invested in gilt futures to help align the weighting in this area with its strategic target and as a tool for risk management. The use of futures enables the Fund to invest cash in higher returning assets at relatively lower cost whilst retaining flexibility to switch money cheaply into the income assets that the Fund may be targeting. The Fund will continue to use futures to manage transitions, ensuring efficient portfolio management and potentially manage active currency risk not covered by the passive hedging strategy. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward foreign currency

To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place. The Fund commenced its currency hedging programme in September 2017 following approval by Committee to amend the Strategic Investment Allocation Benchmark to reflect the passive currency management programme. The Fund's hedging programme aims to protect returns in sterling terms and reduce currency risk by targeting a 50% hedge ratio based on the strategic weight of each region with a rebalancing taking place on a monthly basis to reflect changing market values.

c) Open forward currency contracts

Settlement	Currency Bought	Local value m	Currency Sold	Local value m	Asset value £m	Liability value £m	
One to six months	GBP		700.1 EUR		809.3	1.0	
One to six months	GBP		354.5 JPY		51,202.0	-	
One to six months	GBP		1,992.0 USD		2,607.2	-	
Open forward currency contracts at 31 March 2019						1.0	(2.8)
Net forward currency contracts at 31 March 2019							(1.8)

Prior year comparative

Open forward currency contracts at 31 March 2018		44.9	-
Net forward currency contracts at 31 March 2018		44.9	-

d) Open exchange traded futures contracts

Type	Expires	Economic exposure £m	Market value 31 March 2018 £m	Economic exposure £m	Market value 31 March 2019 £m
Assets					
UK equity	Under one year	-	-	59.9	1.1
Overseas equity	Under one year	-	-	730.4	19.3
UK bond	Under one year	-	-	150.0	0.3
Total assets					20.7

Note P16 - Investment market value movements analysis

	Value as at 31 March 2018	Purchases at cost	Sales at book value	Investment management fees deducted	Change in market value	Value at 31 March 2019
	£m	£m	£m	£m	£m	£m
Bonds	188.5	151.3				339.8
UK equities	1,494.2	0.2	(1,091.0)	(0.8)	(362.6)	40.0
Overseas equities	6,343.5	13.9	(3,545.7)	(2.1)	(1,508.3)	1,301.3
Pooled investment vehicles	5,351.9	7,820.1	(1,861.4)	(59.3)	230.5	11,481.8
Property	862.8	120.5	(18.1)		15.5	980.7
	14,240.9	8,106.0	(6,516.2)	(62.2)	(1,624.9)	14,143.6
Derivative contracts						
Futures	-	51.7	(4.2)	-	(26.8)	20.7
Forward foreign exchange	44.9	167.0	(308.4)		94.7	(1.8)
	14,285.8	8,324.7	(6,828.8)	(62.2)	(1,557.0)	14,162.5
Broker balances	0.4					51.8
Outstanding dividend entitlement and recoverable with-holding tax	45.2					0.5
Amounts payable for purchases of investments						(152.1)
Foreign currency	126.0					690.6
Cash deposits	830.1					821.8
Total investments	15,287.5					15,575.1

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year.

Purchases also include transfers in of investments, take-over of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, take-over proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £15.2 million (2017/18: £2.3 million). In addition to the transaction costs disclosed below, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

31 March 2018		31 March 2019
£m		£m
2.3	Equities - Overseas Quoted	15.2
2.3		15.2

The volatility of investment markets is an ever-present and longstanding feature of pension fund management and valuations may vary, either up or down, throughout each day when exchanges are open.

The change in the value of investments during 2017/18 is set out below:

	Value as at 31 March 2017	Purchases at cost	Sales at Book Value	Investment Management Fees Deducted at Source	Change in Market Value	Value at 31 March 2018
	£m	£m	£m	£m	£m	£m
Bonds	192.4	-	-	-	(3.9)	188.5
UK Equities	1,368.4	329.2	(134.2)	-	(69.2)	1,494.2
Overseas Equities	5,920.3	983.1	(512.0)	-	(47.9)	6,343.5
Pooled Investment Vehicles	5,574.4	1,797.5	(1,657.0)	(46.2)	(316.8)	5,351.9
Property	756.4	75.6	(25.8)	(1.5)	58.1	862.8
	13,811.9	3,185.4	(2,329.0)	(47.7)	(379.7)	14,240.9
Derivative Contracts						
Futures	-	1,394.5	(1,413.0)	-	18.5	-
Forward Foreign Exchange	-	15,453.6	(15,457.1)	-	48.4	44.9
	13,811.9	20,033.5	(19,199.1)	(47.7)	(312.8)	14,285.8
Broker Balances	0.2					0.4
Outstanding dividend entitlement and recoverable With-holding tax	24.7					45.2
Foreign Currency	111.8					126.0
Cash Deposits	304.1					830.1
Total Investments	14,252.7					15,287.5

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profits and losses on the sale of investments shown in the Fund Account include an additional £616.3 million which represents profit realised on sale of the Fund's assets.

16 i) Property Holdings

The Fund's investment property portfolio comprises a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows:

2017/18		2018/19
£m		£m
756.4	Opening balance	862.8
75.6	Additions	120.5
(27.1)	Disposals	(18.1)
57.9	Net change in market value	15.5
862.8	Closing balance	980.7

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligation to purchase, construct or develop any of these properties nor does it have any responsibility for any repairs, maintenance or enhancements.

The future minimum lease payments receivable by the Fund are as follows:

31 March 2018		31 March 2019
£000		£000
50,031	Within one year	40,056
192,879	Between one and five years	142,444
223,218	Later than five years	164,249
466,128	Total future lease payments due under existing contracts	346,749

The receivables above have been reduced by a credit loss allowance of 1% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This deduction is based on advice from the Fund's property letting agents.

Note P17 - Fair value - basis of valuation

The basis of the valuation of each class of investment assets is detailed below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Asset type	Valuation level	Basis of valuation	Observable and unobservable inputs	Key sensitivity
Market quoted investments	1	Published bid market price ruling on 31 March 2019.	n/a	n/a
Quoted bonds	1	Market bid price based on current yields	n/a	n/a
Futures	1	Published exchange prices at 31 March 2019	n/a	n/a
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	n/a
Pooled Investments- overseas unit trusts and property funds	2	PIV are stated at the bid price quoted or the closing single market prices.	Net asset value (NAV) based pricing set on a forward pricing basis	n/a
Forward foreign exchange derivatives	2	Market forward exchange rates at 31 March 2019	Exchange rate risk	n/a
Freehold and leasehold properties	3	Valued at fair value at the year-end using the investment valuation reports of Savills Plc. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties are valued by Browns at the year end.	Existing lease terms and rentals, independent market research, tenant covenant strength, estimated vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or discount rate could affect valuations
Unquoted equity (includes Private Equity, Infrastructure and Absolute Return/Diversified Growth Funds)	3	Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports.	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of level 3 assets

The table below details the Fund's review of financial information as provided by independent advisors. The valuation methods detailed above are likely to be accurate to within the ranges and, as set out below, the consequent potential impact on the closing value of investments at 31 March 2019.

Level 3 assets	Valuation range	Valuation at 31 March 2019	Valuation Increase	Valuation Decrease
	% (+/-)	£m	£m	£m
Freehold and Leasehold Property	14.3	980.7	1,120.9	840.5
Private Equity	28.3	1010.4	1,296.3	724.5
Infrastructure	20.1	818.5	983.0	654.0
Absolute Return/Diversified Growth	12.5	591.5	665.4	517.6
Total		3401.1	4,065.6	2,736.6

17 i) Fair value hierarchy

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in the determining appropriate assumptions.

The values of the investments in private equity, infrastructure and absolute return/diversified growth funds are based on the latest investor reports and financial statements provided by the fund managers of the underlying funds. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

Value at 31 March 2019	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	7,576.0	3,188.2	2,420.4	13,184.6
Non-financial assets at fair value through profit and loss			980.7	980.7
Financial liabilities at fair value through profit and loss		(2.8)		(2.8)
Net financial assets	7,576.0	3,185.4	3,401.1	14,162.5

Value at 31 March 2018	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	9,172.8	1,802.8	2,402.5	13,378.1
Non-financial assets at fair value through profit and loss			862.8	862.8
Net financial assets	9,172.8	1,802.8	3,265.3	14,240.9

Note 17 ii) - Reconciliation of fair value measurements within level 3

Period 2018/19	Market value 1 April 2018 £'000	Transfers into Level 3	Transfers out of level 3 £'000	Purchases during the year £'000	Sales during the year £'000	Unrealised gains / losses £'000	Realised gains/losses £'000	Market value 31 March 2019 £'000
Freehold and Leasehold Property	862.8	-	-	120.5	-18.1	8.1	7.4	980.7
Private Equity	1,191.0	-	-	220.1	(247.8)	(356.7)	203.8	1010.4
Infrastructure	610.0	-	-	239.6	(30.5)	(10.8)	10.2	818.5
Absolute Return/Diversified Growth	601.5	-	-	285.8	(261.3)	27.0	-61.5	591.5
Total	3,265.3	0.0	0.0	866.0	(557.7)	(332.4)	159.9	3401.1

Note P18 - Investment capital commitments

Investment commitments at the end of the financial year in respect of future payments were:

31 March 2018 £m		31 March 2019 £m
907.6	Non-publicly quoted equities and infrastructure	814.6
107.1	Property	103.9
1,014.7		918.5

These amounts relate to outstanding commitments due on funds held in the private equity, fixed interest, absolute return and alternative investment portfolios.

Note P19 - Long term debtors

31 March 2018 £m		31 March 2019 £m
-	Private equity consolidation proceeds	82.6
25.1	Early retirement costs	28.9
	Reimbursement of lifetime tax allowances	2.2
25.1	Total	113.7

As part of a consolidation exercise, the Fund sold a number of small limited partnership private equity holdings in the secondary markets for the total sum of £184.6m. £102m of the proceeds were received by 31 March 2019 and the balance is receivable in two instalments of £29.3m due by 28 August 2020 and £53.3m due by 29 September 2020. The total outstanding of £82.6m is therefore included as long term debtors.

The Fund has agreed for certain employers to defer payment of amounts due to meet early retirement costs and £28.9m is due after the following financial year (2017/18: £25.1m). The instalments due in 19/20 are reported in current assets

Note P20 - Current Assets

	Receivables and prepayments	
	Contributions Receivable	
98.0	- Employers' future service	11.8
20.2	- Employers' past service deficit	4.7
11.7	- Members	9.6
24.8	Other Receivables	19.0
154.7	Total Receivables and Prepayments	45.1
(3.3)	Cash	2.2
151.4	Total Current Assets	47.3

Note: Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it was calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This is to be paid in 10 equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The balance due included in Other Receivables at 31 March 2019 is £3 million (31 March 2018: £6.3 million).

Note P21 - Current liabilities

31 March 2018 £m		31 March 2019 £m
	Payables and receipts in advance	
(2.0)	Pensions and lump sum benefits	(5.9)
(42.3)	Other payables	(16.1)
(44.3)	Total	(22.0)

Investment risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by investing with regard to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted an 86% exposure to return seeking assets such as equities, property, other alternatives with equity-like returns, including emerging market debt and higher return fixed interest investments. The remaining 14% is allocated to stabilising assets, such as UK Government bonds or gilts, both index linked and conventional.

Risks in return-seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of return-seeking assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

Counterparty risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Credit risk

The Fund's deposits with financial institutions as at 31 March 2019 totalled £821.8 million in respect of temporary loans and treasury management instruments (31 March 2018: £830.1 million). The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2019 is shown overleaf.

Credit rating sensitivity analysis			
Summary	Long term Fitch rating*	Value at 31 March 2018 £m	Value at 31 March 2019 £m
Money market funds			
HSBC Sterling Liquidity Fund	Aaa-mf	100.0	157.4
HSBC USD Liquidity Fund Class H	Aaa-mf	-	333.8
LGIM Liquidity Fund	Aaa-mf	230.0	111.0
Insight Liquidity Fund	AAAmf	250.0	0.9
Aberdeen Liquidity Fund (Lux)	Aaa-mf	153.2	-
Short-term deposits			
Principality Building Society	BBB+	25.0	-
Nottingham Building Society	Baa1	10.0	-
Leeds Building Society	A-	-	-
Barclays	A	-	-
Skipton Building Society	A-	-	-
Coventry Building Society	A	15.0	-
Northamptonshire County Council		-	-
Mid Suffolk County Council		-	-
Swindon City Council		-	-
The City of Liverpool Council		10.0	-
London Borough of Barking & Dagenham		10.0	-
Reading Borough Council		10.0	-
London Borough of Haringey		10.0	-
Bank deposit accounts			
NatWest Corporate Cash Manager Account			129.9
CBRE Client Account West Midlands Met Authority			15.7
GBP Current Accounts	AA-	2.9	-
HSBC Global Active	AA-	4.0	73.1
Total		830.1	821.8

* Moody's rating used if no Fitch rating available

Liquidity risk

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. Due to the cashflow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

Foreign exchange risk

The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the Fund's currency exposure is managed in line with the daily cash management policy.

Securities lending

As at 31 March 2019, £215.8 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender (31 March 2018: £353 million). The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £238.6 million, giving a margin of 10.6% (2017/18, £394.8 million, margin of 11.8%).

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Net income from stocklending amounted to £0.9 million during the year (2017/18: £2.9 million) and is detailed in note 12 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers; therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational risk

The Fund's prudent approach to the collective risks listed above and compliance with best practice in corporate governance, ensures that reputational risk is kept to a minimum.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk, which arises from investments held by the Fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period (overleaf):

Market risk - Other price risk

Asset Type	Value as at 31 March 2019 £m	% Change	Value on increase £m	Value on decrease £m
UK equities	1,446.9	16.6%	1,687.1	1,206.7
Global equities (ex UK)	6,110.5	16.9%	7,143.2	5,077.8
Property	227.7	14.3%	260.3	195.1
Fixed interest*	2,957.5	8.3%	3,203.0	2,712.0
Private equity	1,010.4	28.3%	1,296.3	724.5
Alternatives**	1,409.9	16.8%	1,646.8	1,173.0
Total Fund (See note below)	13,162.9		15,236.7	11,089.1

*includes exposure to fixed interest gilts, index-linked gilts, corporate bonds, cash, high yield debt, emerging market debt, mezzanine debt, convertibles and senior loans.

**includes exposure to absolute return (£591.4m) and infrastructure (£818.5m)

The total Fund volatility taking into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory is 10.5%. On this basis, the total value on increase is £14,545 million and the total value on decrease is £11,780.8 million. Due to the approach taken to determine the total Fund volatility (in which the beneficial impact of diversification is recognised), the monetary impact on the total Fund assets is determined using the total Fund volatility, which is lower than the sum of the monetary impact for each asset class.

Asset Type	Value as at 31 March 2018 £m	% Change	Increase £m	decrease £m
UK equities	1,656.3	16.8%	1,934.6	1,378.0
Global equities (ex UK)	6,646.2	17.9%	7,835.9	5,456.5
Property	1,091.9	14.3%	1,248.0	935.8
Fixed interest*	2,444.0	8.3%	2,646.9	2,241.1
Private equity	1,191.0	28.3%	1,528.1	853.9
Alternatives**	1,211.5	16.2%	1,407.8	1,015.2
Total Fund (See note below)	14,240.9		16,601.3	11,880.5

*includes exposure to fixed interest gilts, index-linked gilts, corporate bonds, cash, high yield debt, emerging market debt, mezzanine debt, convertibles and senior loans.

**includes exposure to absolute return (£601.5m) and infrastructure (£610.0m)

Currency risk - sensitivity analysis

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The following tables summarise the Fund's currency exposure as at 31 March 2019 and 31 March 2018:

Currency risk by asset class

Asset Type	Value at 31 March 2019 £	% Change	Value on Increase £	Value on Decrease £
Global equities (ex UK)	6,110.5	10.0%	6,721.6	5,499.5
Private equity	1,010.4	10.0%	1,111.4	909.4
Fixed interest	2,957.5	10.0%	3,253.3	2,661.8
Alternatives	1,409.9	10.0%	1,550.9	1,268.9
Property funds	167.5	10.0%	184.3	150.8
Liquid assets	1,074.0	10.0%	1,181.4	966.6
Total	12,729.8		14,002.9	11,457.0

Asset Type	Value at 31 March 2018 £	% Change	Value on Increase £	Value on Decrease £
Global equities (ex UK)	6,646.2	10.0%	7,310.8	5,981.6
Private equity	1,191.0	10.0%	1,310.1	1,071.9
Fixed interest	2,444.0	10.0%	2,688.4	2,199.6
Alternatives	1,211.5	10.0%	1,332.7	1,090.4
Property funds	229.1	10.0%	252.0	206.2
Liquid assets	126.0	10.0%	138.6	113.4
Total	11,847.8		13,032.6	10,663.1

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's consulting actuary has advised that the assumed interest rate volatility is 100 basis points (BPS) per annum.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS change in interest rates:

Asset Type	Carrying amount as at 31	Change in year in the net assets	
	March 2019	+100BPS	-100BPS
	£m	£m	£m
Index-linked Gilts	920.6	(203.5)	203.5
Gilts	172.7	(20.0)	20.0
Corporate Bonds	585.1	(49.6)	49.6
Gilt Future*	150.3	(13.1)	13.1
US TIPS	151.9	(18.5)	18.5
Total	1,980.6	(304.7)	304.7

* Economic exposure

Asset Type	Carrying amount as at 31	Change in year in the net assets	
	March 2018	+100BPS	-100BPS
	£m	£m	£m
Index-linked Gilts	872.3	(183.2)	183.2
Gilts	166.6	(17.3)	17.3
Corporate Bonds	585.1	(50.1)	50.1
Total	1,624.0	(250.6)	250.6

Note P26 - Impairment for bad and doubtful debts

The following additions and write offs of pension payments were reported in this financial year, in line with the Fund's policy:

Individual Value	Additions analysis	
	Number	Total £
Less than £100	8	206.40
£100 - £500	1	106.71
Over £500	2	2,297.30
TOTAL	11	2,610.41

Write off analysis		
Individual Value	Number	Total £
Less than £100	2	150.56
£100 - £500	52	11,319.38
Over £500	21	66,268.39
TOTAL	75	77,738.33

Note P27 - Related parties

Pensions administration and certain investment functions are performed by the City of Wolverhampton Council and the costs shown in Note P13 above are recharged to the Fund. Contributions of £64.1 million were receivable from the City of Wolverhampton Council for 2018/19 (2017/18: £35.8 million). Having paid £5.5m on account in January 2018, City of Wolverhampton Council paid the balance of its 2018/19 and 2019/20 future service and past service deficit contributions by lump sum payment of £57.3m on 30 April 2018. Balances owed by and to the Council at the year end are shown in Notes P19, P20 and P21.

Pensions Committee

Eight members of the Pensions Committee are also members of the Fund as set out below:

Pensioner:	Councillors Bagri, Butt, Inston, Mutton and Underhill
Active:	Councillor Hevican
Deferred:	Councillors Brookfield and Simkins

Each member of the Pensions Committee is required to declare any interests relevant to the matters being discussed at each meeting.

There are five employing bodies of the Fund in which a member of the Committee has declared an interest for 2018/19. Contributions from each of these are set out below.

Contributions receivable 2017/18 £000		Contributions receivable 2018/19 £000
5,730	West Midlands Fire and Rescue Service	-
4,497	Wolverhampton Homes	4,890
174	Wolverhampton Girls High School	218
18	Kingswood Trust	21
-	Wolverhampton City Council	64,100
-	Birmingham Museums Trust	175

LGPS Central Limited

LGPS Central Limited has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPS Central Pool, of which Wolverhampton City Council, as the administering authority for West Midlands Pension Fund, is one of the shareholders. Each authority has one Class A voting share in LGPS Central Limited.

The West Midlands Pension Fund paid £0.355m of set-up costs in relation to LGPS Central Limited in 2018/19 bringing the Pension Fund's total share of set-up costs to £0.502m. These set up costs have been reimbursed by LGPS Central Limited in full to the Pension Fund in 2018/19.

LGPS Central Limited launched its first products on 3 April 2018, a range of passive equity funds which the Fund has invested in from launch. Additionally, the Fund has agreed a number of advisory agreements covering a range of asset classes within the fixed income portfolio and wider illiquid portfolios. LGPS Central Limited has also provided the Fund with execution only services in the management of forward currency hedging positions. The charges in respect of these services totalled £1.699m in 2018/19 (2017/18: £nil). The amount outstanding in respect of these services at 31 March 2019 was £0.202m (2017/18: £nil).

The Pension Fund was invoiced £2.071m in respect of Governance, Operator Running and Product Development costs by LGPS Central Limited for 2018/19 (2017/18: £nil). The amount outstanding in respect of these services at 31 March 2019 was £0.370m (2017/18: £nil).

LGPS Central Limited has let office space from Wolverhampton City Council since 1 April 2018 on a sub leasing arrangement. The rental income and rates receivable by Wolverhampton City Council from LGPS Central Limited in 2018/19 totalled £81,798 and the reimbursement of associated utilities and maintenance charges for 2018/19 totalled £8,021. In addition, West Midlands Pension Fund provided graphic design services to LGPS Central Limited for a fee of £11,770.

LGPS Central Limited is an admitted body and employs staff that are active members of the West Midlands Pension Fund. Consequently, LGPS Central Limited paid contributions to the Fund on behalf of staff totalling £274,764 (2017/18: £8,582).

Wolverhampton City Council, via the Pension Fund, has invested £1.315m in LGPS Central Limited class B shares and £0.685m in class C shares in 2017/18 and these are both balances at this year end.

Key management personnel

The Fund's current senior management comprises six individuals: the Director of Pensions, Assistant Director (Finance & Investments), the Head of Operations, the Head of Pensions, the Head of Governance and Corporate Services and the Head of Finance. The total salary paid to the senior management team in 2018/19 was £458,000 (2017/18: £481,000). In addition to this, employer's pension contributions of £138,000 (2017/18: £130,000) were met from the Fund in respect of these individuals.

**WEST MIDLANDS INTEGRATED TRANSPORT
AUTHORITY PENSION FUND**

Financial Report

For the year ended 31 March 2019

Pension Scheme Registry (Pensions Regulator) 10175688

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UNAUDITED

EXPLANATORY FOREWORD

The following statements comprise the Financial Report for the West Midlands Integrated Transport Authority ('ITA') Pension Fund ('the Fund'). The accounts cover the financial year from 1 April 2018 to 31 March 2019.

This report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 published by the Chartered Institute of Public Finance and Accountancy.

The report is set out in the following order:

- **Introduction** which provides general information on the background of the Fund, management and advisors and officers of the Fund, and actuarial position.
- **Fund Account** which discloses the size and character of financial additions to, withdrawals from and changes to the value of the Fund during the accounting period, analysed between contributions and benefits, and returns on investments.
- **Net Assets Statement** which discloses the size and disposition of the net assets of the scheme at the end of the year.
- **Notes to the Fund Accounts** which gives supporting details and analysis concerning the contents of the financial statements.

UNAUDITED

Introduction

1. History of the Fund

The West Midlands Passenger Transport Authority Pension Fund was established on 29 November 1991 under the Local Government Superannuation (Miscellaneous Provisions) Regulations 1991. The Local Transport Act 2008 changed the names of all English Passenger Transport Authorities to Integrated Transport Authorities. This was effective from the 9 February 2009 under Statutory Instrument 2009 No. 107 (C.08), and the West Midlands Passenger Transport Authority Pension Fund was changed to the West Midlands Integrated Transport Pension Fund ('the Fund').

The West Midlands Integrated Transport Authority (ITA) was responsible for the administration of the Fund until 16 June 2016 when the responsibility passed to the West Midlands Combined Authority (WMCA) when it was established on 17 June 2016 under Statutory Instrument 2016 No 653 in exercise of the Local Democracy, Economic Development and Construction Act 2009. The effect of the order was that the WMCA was substituted for the ITA as the administering authority of the Fund. The City of Wolverhampton Council was appointed by the then ITA as agent to administer the Fund on its behalf. The name of the Fund remains unchanged. The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- (i) The Local Government Pension Scheme Regulations 2013 (as amended)
- (ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
- (iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

Following the transfer of ownership of West Midlands Travel Limited from local authority to employees' ownership, the West Midlands Passenger Transport Authority entered into an admission agreement with West Midlands Travel Limited whereby 5,556 existing employees of West Midlands Travel Limited transferred on 4 December 1991 from the West Midlands Metropolitan Authorities Pension Fund to the new Fund. The West Midlands Passenger Transport Authority also entered into an admission agreement with Preston Bus Limited, following their change from local authority to employee ownership. On 31 March 1993, 162 employees of the company were transferred from the Lancashire County Council Pension Fund to the West Midlands Passenger Transport Authority Fund. Preston Bus Limited decided during 2005/06 that it wished to terminate its active membership of the Fund and the Passenger Transport Authority agreed to this request.

Agreement was reached between Preston Bus Limited and 52 of their 56 existing members to terminate their active membership during 2005/2006 in return for a cash lump-sum payment. The 4 active members remaining at 31 March 2006 subsequently agreed to the same offer. There is no provision in the admission agreement for new employees of West Midlands Travel Limited to be admitted to the Fund.

2. Management of the Fund

The West Midlands Pension Fund (WMPF) Pensions Committee is responsible for the strategic management of the assets of the Fund. The role of the Committee is to:

- Discharge functions of the administering authority for the application of the Local Government Pension Scheme Regulations for the West Midlands ITA Pension Fund;
- Put in place and monitor 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;
- Determine and review the provision of resources made available for discharge of the function of administering authority.

3. Membership

Membership of the Fund at the year end was as follows:

31 March 2018 No		31 March 2019 No
352	Active members	313
3,923	Pensioner members	3,975
722	Deferred members	654
4,997	Total members	4,942

4. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2019 depending on the level of pay.

In addition to employee contributions, employers' contributions are paid as set based on triennial actuarial funding valuations. The last such valuation was as 31 March 2016 which set contribution rates for the period 1 April 2017 to 31 March 2020. The next valuation will be at 31 March 2019, which will set contributions for the three years to 31 March 2023.

5. Benefits

With effect from 1 April 2008, new rules were introduced replacing the 1997 scheme. The principal changes were the replacement of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump-sum of three times this amount by one based on 1/60th of pensionable pay for each year of pensionable service with no automatic lump-sum. Part of the annual pension can be commuted for a one-off tax-free lump-sum at a rate of £12 cash for each £1 per annum of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE), with an accrual rate of 1/49th, and pensions uprated annually in line with the consumer price index. Pension entitlements accrued prior to this date continue to be based on final salary.

6. Bulk annuity insurance arrangement

As an integral part of its risk management and reduction strategy the ITA, in 2011, approved a bulk annuity insurance buy-in and, following a comprehensive procurement process, the policy was put in place on 18 April 2012 with Prudential Retirement Income Limited (Prudential). The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11 August 2011. The insurance provider will pay the cost of the monthly pension payments for current pensioners whilst they or their dependants are entitled to a pension. The initial arrangements do not cover the Preston Bus Company liabilities or future West Midlands Travel Limited pension payments arising from new pensioners or inflation uplifts or pre-October 1986 service.

The financial effect of the buy-in is explained in note 14 to the accounts.

7. Annual Report

A separate annual report is produced for the Fund which provides more details about the Fund's management, financial and investment performance and also sets out the Fund's funding and investment strategy.

This report is included within the West Midlands Pension Fund annual report which is available on <http://www.wmpfonline.com/annualreport>.

On behalf of the Combined Authority Board



Linda Horne
Director of Finance (Interim)

Date: 20.5.2019

UNAUDITED

UNAUDITED

FUND ACCOUNT

2017/18 £'000		Notes	2018/19 £'000
	Dealings with members, employers and others directly involved in the fund		
(11,434)	Contributions	5	(11,135)
-	Transfers in from other pension funds	6	-
(2,756)	Other employer contributions	7	(2,831)
(14,190)			(13,966)
29,093	Benefits	8	30,079
882	Payments to and on account of leavers	9	-
3	Other payments	10	8
29,978			30,087
15,788	Net withdrawals from dealing with members		16,121
951	Management expenses	11	1,059
16,739	Net withdrawals including fund management expenses		17,180
	Returns on investments		
(17,843)	Investment income	12	(17,267)
(4,740)	(Profits) and losses on disposal of investments and changes in the market value of investments	13	(13,372)
16,689	(Increase)/decrease in value of bulk annuity insurance buy-in	14	13,785
(5,894)	Net return on investments		(16,854)
10,845	Net (increase)/decrease in the net assets available for benefits during the year		326
502,884	Net assets of the fund brought forward		492,039
492,039	Net assets of the fund carried forward		491,713

NET ASSETS STATEMENT

2018 £'000		Notes	2019 £'000
250,593	Investment assets	13	263,529
238,333	Bulk annuity insurance buy-in	14	224,548
3,453	Current assets	15	4,441
(340)	Current liabilities	16	(805)
492,039	Net assets of the fund available to fund benefits at the period end		491,713

These financial statements replaced the unaudited financial statements certified by Linda Horne on 20 May 2019. They were approved for issue by the Audit, Risk & Assurance Committee on xx June 2019. Events after the Balance Sheet have been considered up to the date of approval.

Linda Horne
20.5.2019.

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed in note 22 of these accounts.

2. Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.

c) Investment income

(i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective rate of the financial instrument as at the date of acquisition or origination.

(ii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

(iii) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

(iv) Benefits underwritten

The annuity purchased (see note 14) is treated in the accounts as an investment. Any income arising from this insurance contract to cover benefits underwritten is recognised in the Fund as investment income on an accruals basis.

(v) Dividend income

Dividend income is recognised on the date of the cancellation of units at the mid-price in the pooled UK investments held with investment fund managers.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

(i) Value Added Tax

The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

(ii) Income Tax

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted.

f) Administration expenses

All administration expenses are accounted for on an accruals basis.

The pension administration recharge from the City of Wolverhampton Council is calculated on a historical cost basis based on the proportion of time spent by the council's in-house pensions administration team on the Fund's activities.

g) Investment management expenses

All investment management expenses are accounted for gross on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Each investment manager receives a fee for their service based on the market value of the assets they manage on the Fund's behalf. All managers have a specific target return against a benchmark.

The fund participates in LGPS Central Limited following the establishment of an investment pool company in conjunction with West Midlands Pension Fund and seven other Partner Funds. The company became operational on 1 April 2019, since which time all participating administering authorities in LGPS Central Limited became subject to a proportion of the costs on an assets under management basis for the investment company. These costs are included within external management fees.

The costs of the in-house fund management team are recharged to the Fund by the City of Wolverhampton Council on the same basis as the administration expenses recharge.

h) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. The costs include actuarial fees and professional fees relating to the unitisation exercise.

Net assets statement

i) Financial assets

The Fund's financial assets include debtors (mainly contributions due from members and employers), cash and cash equivalents, investment assets and bulk annuity insurance buy-in. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable it is written off to the Fund Account in the period in which it is recognised.

Investment assets are recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Subsequent to initial recognition investment assets and the insurance buy-in are measured at fair value with any gains or losses arising from changes in the fair value of the asset recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 18). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

j) Financial liabilities

Financial liabilities include amounts due for benefits and management expenses. These creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Fund Account in the period in which it is recognised.

k) Foreign currency transactions

The Fund has no financial assets denominated in foreign currencies. Equities held overseas are valued in sterling at source.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 22).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company and Equitable Life as its AVC providers (new AVCs only with Prudential Assurance Company). AVCs collected are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC

contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 17).

3. Critical judgements in applying accounting policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions made about the future and other major sources of estimation and uncertainty

The financial statements contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement and the notes for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Bulk annuity insurance buy-in

The bulk annuity insurance buy-in is included in the Net Assets Statement as an asset and is valued by the Fund's actuaries. The assumptions used can be found in note 18.

Pension fund liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

The effects on the net pension liability and funding level of changes in individual assumptions have been measured by the Fund's actuaries. The assumptions used are as follows:

31 March 2018	Assumptions used	31 March 2019
2.50%	Discount rate	2.35%
2.35%	Salary increases	2.45%
2.35%	Pensions increases	2.45%

31 March 2018	Life expectancy from age 65 (years)	31 March 2019
21.9	Retiring today: Males	20.9
24.0	Females	22.8
24.0	Retiring in 20 years: Males	22.6
26.3	Females	24.7

The effect on the pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2019	Increase/(decrease) in pension liability	
	Adjustment to discount rate Present value of total obligation	+0.5% (£40.8m)
Adjustment to long term salary increase Present value of total obligation	+0.5% £2.5m	-0.5% (£2.4m)
Adjustment to pension increases and deferred revaluation Present value of total obligation	+0.5% £41.3m	-0.5% (£38.6m)
Adjustment to life expectancy assumptions Present value of total obligation	+1 Year £25.2m	-1 Year (£24.2m)

5. Contributions receivable

2017/18 £'000		2018/19 £'000
2,813	Employers Normal contributions	2,598
7,625	Deficit funding	7,793
248	Early retirement costs	52
10,686		10,443
748	Members Normal contributions	692
-	Additional contributions	-
748		692
11,434	Total by category	11,135
11,434	Analysed by member body: Admitted bodies	11,135
11,434	Total by authority	11,135

Employers' contribution rates following the 31 March 2016 valuation for the period 1 April 2017 to 31 March 2020 are detailed in note 21.

6. Transfers in from other pension funds

There were no transfers in from other pension funds during the year (2018: none).

7. Other employer contributions

Pre-October 1986 pension increase liabilities are the responsibility of the West Midlands Combined Authority. The West Midlands Combined Authority makes monthly payments to the West Midlands Pension Fund who then transfers the payments into the Fund. During the year, payments of £2.831m (2018: £2.756m) were made.

8. Benefits payable

2017/18 £'000		2018/19 £'000
	Pensions	
23,350	Retirement pensions	23,869
2,141	Widows' pensions	2,381
10	Children's pensions	17
17	Widowers' pensions	19
25,518		26,286
3,538	Commutation and lump-sum retirement benefits	3,415
37	Lump-sum death benefits	378
29,093	Total by category	30,079
	Analysed by member body:	
29,093	Admitted bodies	30,079
29,093	Total by authority	30,079

9. Payments to and on account of leavers

2017/18 £'000		2018/19 £'000
	Transfers out	
882	Individual transfers out to other schemes and personal pensions	-
882	Total	-

During the year, no members transferred their pensions into other schemes and personal pensions (2018: eight).

10. Other payments

2017/18 £'000		2018/19 £'000
3	Interest on late payments	8
3	Total	8

11. Management expenses

2017/18 £'000		2018/19 £'000
120	Administration expenses Administration - City of Wolverhampton Council	120
120		120
668	Investment management expenses Management fees - external	800
30	Management fees - internal	30
698		830
22	Oversight and governance costs Administration and accountancy - WMCA	22
8	Subscriptions	9
31	Actuarial fees	19
21	Audit fees - external auditor	16
(5)	Audit fees - PSAA refund	-
22	Performance monitoring service	20
9	Legal fees	8
23	Professional advisors' fees	13
2	Bank charges and interest	2
133		109
951	Total	1,059

12. Investment income

2017/18 £'000		2018/19 £'000
6	Interest on cash deposits	29
16,337	Benefits underwritten	16,064
1,500	Dividend income	1,174
17,843	Total	17,267

Benefits underwritten relates to income received from the insurance contract with Prudential meeting the liabilities relating to West Midlands Travel Limited pensioners.

Dividend income relates to the notional dividend income payment (NDIP) which enables a policyholder to draw a regular income from the investment funds. The NDIP is based on the underlying yields from UK investments held by the relevant investment funds and is made available through cancellation of units of the investment funds at the mid-price.

13. Investment assets

Reconciliation of movements in investments:

Movements during 2018/19	Market value 1 April 2018	Purchases during the year	Sales during the year	Management fees deducted	Change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	63,302	-	(15,118)	-	1,639	49,823
Overseas - unitised insurance policies	91,203	-	(32,382)	-	7,097	65,918
Unquoted:						
Diversified growth funds	96,088	-	(4,450)	(302)	3,874	95,210
Diversified multi-asset credit funds	-	51,950	-	(134)	762	52,578
Total investments	250,593	51,950	(51,950)	(436)	13,372	263,529

Following a review of investment strategy with advisers, the decision was made to reduce the level of risk in the portfolio, consequently part of the investments in Legal and General, Baillie Gifford and Newton were sold and the proceeds re-invested in CQS Credit Multi Asset Fund.

Prior year comparatives:

Movements during 2017/18	Market value 1 April 2017	Purchases during the year	Sales during the year	Management fees deducted	Change in market value during the year	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles						
Quoted:						
UK - unitised insurance policies	65,028	-	(999)	-	(727)	63,302
Overseas - unitised insurance policies	87,586	-	(13)	-	3,630	91,203
Unquoted:						
Diversified growth funds	94,559	-	-	(308)	1,837	96,088
Total investments	247,173	-	(1,012)	(308)	4,740	250,593

Purchases include transfers in of investments, corporate actions, increases in cash deposits and increases in net settlements due. Sales proceeds include all receipts from sales of investments, transfers out of investments, corporate actions, reductions in cash deposits and reductions in net settlements due. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held including profits and losses realised on sales of investments during the year.

Investments analysed by fund manager:

31 March 2018			31 March 2019	
Market value £'000	% of total fund		Market value £'000	% of total fund
154,505	62%	Legal & General Investment Management	115,741	44%
49,832	20%	Baillie Gifford	47,956	18%
46,256	18%	Newton	47,254	18%
-	-	CQS Investment Management	52,578	20%
250,593	100%		263,529	100%

Investments analysed by security:

31 March 2018			31 March 2019	
Market value £'000	% of total fund		Market value £'000	% of total fund
9,488	4%	UK equities		
		UK Equity Index	6,441	2%
9,488	4%		6,441	2%
		Overseas equities		
25,601	10%	Europe (ex UK) Equity Index	17,834	7%
29,381	12%	North America Equity Index	23,987	9%
10,035	4%	Japan Equity Index	6,645	2%
16,173	6%	World Emerging Markets Equity Index	10,617	4%
10,013	4%	Asia Pacific (ex Japan) Dev Equity Index	6,835	3%
91,203	36%		65,918	25%
		Gilts and bonds		
27,122	11%	All Stocks Index-Linked Gilts	28,461	11%
26,692	11%	Active Corporate Bond - All Stocks	14,921	6%
53,814	22%		43,382	17%
		Diversified growth funds*		
49,832	20%	Baillie Gifford	47,956	18%
46,256	18%	Newton	47,254	18%
96,088	38%		95,210	36%
		Diversified multi-asset credit funds*		
-	0%	CQS	52,578	20%
-	0%		52,578	20%
250,593	100%	Total market value	263,529	100%

*Diversified funds are multi-asset portfolios that are designed to provide equity type returns but with less volatility than an equity fund. All tactical asset allocation decisions are undertaken by the manager to suit the prevailing market conditions.

As part of its risk management arrangements, the Fund uses pooled investment vehicles and has no direct shareholding in companies.

14. Bulk annuity insurance buy-in

As an integral part of the Fund's risk management and reduction strategy, a bulk annuity insurance buy-in was put in place during 2012/13. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midland Travel Limited pensioners on the pension payroll at 11 August 2011 in return for the payment of a one-off premium.

Benefits recharged to Prudential during the year have been credited to the Fund account and the value of the buy-in recalculated at each year end by the consulting actuary (see note 18 for methodology) and recognised in the Net Assets Statement as follows:

31 March 2018 £'000		31 March 2019 £'000
255,022	Opening market value	238,333
	Movements in the year:	
3,572	Interest on buy-in	3,685
(16,337)	Level pensions paid	(16,080)
-	Change in demographic assumptions	(8,991)
(3,924)	Change in actuarial assumptions	7,601
(16,689)		(13,785)
238,333	Closing market value	224,548

The change in demographic assumptions is as a result of updating to the Continuous Mortality Investigation's model, CMI 2018 which was released in March 2019. The change in actuarial assumptions arises from the reduction in the discount rate from 1.6% at 31 March 2018 to 1.3% at 31 March 2019.

15. Current assets

31 March 2018 £'000		31 March 2019 £'000
	Debtors	
240	Contributions due - employers	145
57	Contributions due - members	9
138	Other debtors	14
435		168
3,018	Cash balances	4,273
3,453	Total	4,441
	Analysis of debtors:	
164	Other local authorities and pension funds	9
271	Other entities and individuals	159
435	Total	168

Included within cash balances is £3.893m (2018: £2.960m) placed in the West Midlands Pension Fund's STIC Global STG Portfolio.

16. Current liabilities

31 March 2018 £'000		31 March 2019 £'000
-	Benefits payable	462
340	Sundry creditors	343
340	Total	805
	Analysis of creditors:	
232	Central government bodies	241
-	Other local authorities and pension funds	7
108	Other entities and individuals	557
340	Total	805

17. Additional voluntary contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions and the investments are not included within the Fund accounts, in line with regulation 4 (1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016. The table below shows the activity for each AVC provider in the year.

2017/18			2018/19	
Equitable Life £'000	Prudential £'000		Equitable Life £'000	Prudential £'000
172	719	Opening value of the fund	76	702
1	119	Income	-	112
(100)	(157)	Expenditure	(1)	(342)
3	21	Change in market value	3	141
76	702	Closing value of the fund	78	613

18. Fair value – basis of valuation

The basis of the valuation of each class of investment is set out below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Asset Type	Valuation level	Basis of valuation	Observable and Unobservable inputs	Key sensitivities
Pooled investment vehicles - quoted unitised insurance policies	1	Closing bid price if both bid and offer prices are published.	Not required	Not required
Pooled investment vehicles - diversified growth and diversified credit funds	2	Diversified growth funds and diversified credit funds invest in a variety of liquid assets. Values are derived from several sources including the use of quoted market prices and valuation techniques used by external managers based on significantly observable market data.	NAV based pricing set on a forward pricing basis.	Not required
Bulk annuity insurance buy-in	3	Provided by the Fund's actuary based on a roll-forward of the value placed on the buy-in as part of the 2016 triennial actuarial valuation, allowing for estimated level pensions paid and the change in the discount rate used to value the buy-in.	Key underlying inputs for the valuation are the discount rate and life expectancy. Discount rate has been set at 1.3% with reference to the 13-year point of the Bank of England nominal gilt yield curve, consistent with the 2016 valuation of the Fund.	Adjustments to discount rate and life expectancy

Sensitivity of assets valued at level 3

The key underlying inputs for the buy-in valuation are the discount rate and life expectancy. The impact of changes as calculated by the Fund's actuary is shown below:

Change in assumptions - year ended 31 March 2019	Increase/(decrease) in value of buy-in	
Adjustment to discount rate	+0.5%	-0.5%
Value of buy-in	(£11.4m)	£12.0m
Adjustment to life expectancy assumptions	+1 Year	-1 Year
Value of buy-in	£10.3m	(£9.9m)

Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. There have been no transfers between levels during the year.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Values at 31 March 2019				
Financial assets at fair value through profit and loss	115,741	147,788	224,548	488,077
Net investment assets	115,741	147,788	224,548	488,077

A reconciliation of fair value measurements within level 3 is shown in note 14.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Values at 31 March 2018				
Financial assets at fair value through profit and loss	154,505	96,088	238,333	488,926
Net investment assets	154,505	96,088	238,333	488,926

19. Financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2018				31 March 2019		
Fair value through profit and loss £'000	Financial assets at amortised ables £'000	Financial liabilities at amortised cost £'000		Fair value through profit and loss £'000	Financial assets at amortised ables £'000	Financial liabilities at amortised cost £'000
250,593	-	-	Financial assets	263,529	-	-
238,333	-	-	Investment assets	224,548	-	-
-	3,018	-	Bulk annuity insurance buy-in	-	4,273	-
-	435	-	Cash balances	-	168	-
			Debtors			
488,926	3,453	-		488,077	4,441	-
-	-	(108)	Financial liabilities	-	-	(557)
			Creditors			
488,926	3,453	(108)		488,077	4,441	(557)

Net (gains) and losses on financial instruments

31 March 2018 £'000		31 March 2019 £'000
	Financial assets	
	Designated at fair value through profit and loss:	
(4,740)	Investment assets	(13,372)
16,689	Bulk annuity insurance buy-in	13,785
11,949		413
(6)	Financial assets at amortised cost	(29)
11,943	Total	384

20. Nature and extent of risks arising from financial instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme which focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Responsibility for the Fund's risk management strategy rests with the West Midlands Pension Fund Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's activities. Policies are reviewed regularly to reflect changes in activity and in market conditions. Policies covering specific areas relating to the Fund are as follows:

Investment risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by matching assets to liabilities through the triennial actuarial valuation and an appropriate asset allocation.

During the year, excluding the bulk annuity buy-in, the Fund targeted a 60-70% exposure to equities as 'growth' assets and 30-40% to 'matching' assets, such as UK bonds or gilts which provide the best match for liabilities, i.e. payments of benefits to members in future years. Risks in growth assets include market risk (the greatest risk), issuer risk and volatility, which are mitigated by diversification across asset classes, markets and sectors. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of 'growth' assets may increase the costs of funding. 'Matching assets' backed by the UK Government are considered low risk, with corporate bonds carrying some additional issuer risk.

Counterparty risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by fund officers in relation to suitability and performance, in addition to compliance with regulatory and fund-specific requirements.

Credit risk

The Fund's deposits with financial institutions as at 1 April 2018 or the 31 March 2019 are disclosed in note 15. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Liquidity risk

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. When additional deposits are required to meet future pension payrolls, cash is provided by one of the investment managers (in accordance with the asset allocation) who will liquidate a small proportion of assets under management as instructed by the Fund. Due to the cash flow management procedures and the liquidity of the assets held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Even though the Fund has no financial assets denominated in foreign currencies, it is exposed to currency risk on its overseas equity portfolio as the movement in value takes account of changes in exchange rates of the underlying investments.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

Price risk sensitivity analysis

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the Fund's asset allocations. In consultation with the Fund's performance advisors, the Fund has determined that the following future movements in market price risk are reasonably possible based on 2018/19 closing values:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	6,441	16.6%	7,510	5,372
Overseas equities	65,918	16.9%	77,058	54,778
Total bonds	14,921	8.9%	16,249	13,593
Index linked	28,461	8.3%	30,823	26,099
Diversified growth funds	95,210	12.5%	107,111	83,309
Diversified multi-asset credit funds	52,578	7.7%	56,627	48,529
Cash	4,273	0.5%	4,294	4,252
Total assets	267,802		299,672	235,932

The potential price changes on the 2017/2018 closing values are shown below for comparison purposes:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	9,488	16.8%	11,082	7,894
Overseas equities	91,203	17.9%	107,528	74,878
Total bonds	26,692	8.7%	29,014	24,370
Index linked	27,122	8.3%	29,373	24,871
Diversified growth funds	96,088	12.6%	108,195	83,981
Cash	3,018	0.5%	3,033	3,003
Total assets	253,611		288,225	218,997

Interest rate risk and sensitivity analysis

The Fund's investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Carrying amount as at 31 March 2018 £'000	Change in year in the net assets available to pay benefits		Asset type	Carrying amount as at 31 March 2019 £'000	Change in year in the net assets available to pay benefits	
	£'000	£'000			£'000	£'000
	+100BPS*	-100BPS*			+100BPS*	-100BPS*
3,018	30	(30)	Cash and cash equivalents	4,273	43	(43)
53,814	538	(538)	Fixed interest securities	43,382	434	(434)
56,832	568	(568)	Total change in assets	47,655	477	(477)

*BPS – basis points

Regulatory risk

These include any changes to pension regulations e.g. more favourable benefits packages and/or HMRC rules. In order to manage this risk, changes to regulations are continuously monitored.

21. Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. As a result, employers' contributions have been adjusted from 1 April 2017.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and, ultimately, to the council tax payer from an employer defaulting on its pension obligations.

The results of the valuation as at 31 March 2013 and 31 March 2016 and the actuarial assumptions used are shown below.

Valuation results	31 March 2016 Valuation	31 March 2013 Valuation
Funding target as % of existing and prospective liabilities	100%	100%
Common rate of employer's contributions (calculated using the attained age method)	25.1%	21.5%
Market value of the fund	£464m	£449m
Actuarial value of the fund	£569m	£563m
Funding level in relation to past service liabilities	82%	84%
Offset to allow for market changes after the valuation date*	n/a	(£28m)
Deficit in relation to past service	(£105m)	(£86m)

*allows for impact on assets and liabilities

Valuation assumptions	2016 valuation	2013 valuation
Discount rate - West Midlands Travel Limited		
Pre-retirement (non-retired members)	4.5% p.a.	5.5% p.a.
Post-retirement (non-retired members)	As above	3.5% p.a.
Post retirement (retired members - non buy-in)	As above	3.5% p.a.
Post retirement (retired members - buy-in)	1.9% p.a.	3.0% p.a.
Buy-in asset valuation	1.9% p.a.	2.5% p.a.
Discount rate - Preston Bus Limited		
Pre-retirement	2.8% p.a.	5.0% p.a.
Post-retirement	As above	3.0% p.a.
Salary increases	2.3% p.a.	2.6% p.a.
Pension increases in payment	2.3% p.a.	2.6% p.a.
Retired members' mortality - base tables	S2PA tables with a multiplier of 110% for current pensioners (both normal and ill-health) and future dependants	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments
Retired members' mortality - future improvements	CMI 2015 model methodology with 1.5%p.a. long-term trend	CMI 2013 model methodology with 1.25%p.a. long-term trend
Commutation assumption	Members will commute pension to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	50% of retiring members will take the maximum tax-free lump available and 50% will take the standard 3/80ths cash sum for pre April 2008 service

Key:

CMI – The Continuous Mortality Investigation

S2PA – Post retirement mortality tables

Following the 31 March 2016 valuation, employers' contribution rates for the period from 1 April 2017 to 31 March 2020 have been set at 25.1% per annum plus £7,300,000 (2017/18), £7,467,900 (2018/19) and £7,639,700 (2019/20) for West Midlands Travel Limited. The contributions have taken into consideration the support of the Group guarantee which has been extended following discussions as part of the valuation process. The contributions certified are conditional on the guarantee remaining in place for the employer relating to its participation in the Fund.

A rate of 0% plus £325,000 per annum was determined as the appropriate rate for Preston Bus Limited following the 31 March 2016 valuation. This followed the decision by Preston Bus Limited to opt out of the scheme in February 2006. The annual lump-sum only payment will continue to be paid in order to cover the past service default that has accrued.

If non ill-health retirements exceed those provided for in the valuation, it may be necessary to review the employers' contribution rate. The funding method adopted is known as the 'attained age method' which is consistent with the funding objective and appropriate as the Fund is closed to new members and has an ageing membership profile.

The Fund's assets at 31 March 2016 valuation was £464m, of this £256m was in respect of the buy-in asset value with the remaining representing the Fund's invested assets.

The next valuation will be at 31 March 2019, which will set contributions for the three years to 31 March 2023.

22. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see note 21). The actuary has also used valued ill health and death benefits in line with IAS 19. Demographic assumptions are the same as those used for funding purposes.

The actuarial present value of promised retirement benefits at 31 March 2019 was £600.0m (2018: £619.3m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

31 March 2018	Assumptions used	31 March 2019
2.50%	Discount rate	2.35%
2.35%	Salary increases	2.45%
2.35%	Pensions increases	2.45%

23. Related party transactions

The West Midlands Combined Authority recharges administrative costs incurred to the Fund. The recharges for the year ended 31 March 2019 are £22,000 (2018: £22,000), as detailed in note 11. There are no other related party disclosures, as none of the members of the West Midlands Pension Fund Pensions Committee or the employees of the Fund's advisors and officers who hold key positions are members of the Fund.

24. Events after the Reporting Date

Section 13 of the Public Services Pensions Act 2013 introduced an independent review of local LGPS actuarial valuations and employer contribution rates. The Government Actuary Department (GAD) was appointed to undertake the review and make recommendation to the responsible authority, the Ministry of Housing Communities and Local Government (MHCLG). The Section 13 report in relation to the 2016 actuarial valuation was finalised and published on 29 September 2018.

The report raised a concern that, in the absence of any participating statutory employers there was a risk to payment of member benefits in the event that neither participating employer was able to meet future contribution requirements. GAD recommended the administering authority (WMCA) put in place a plan to address this risk and in view of this WMCA has been in discussions with West Midlands Pension Fund with regards to a proposed merger of the Fund to address these concerns. It is anticipated that a formal consultation will take place on this in due course.

WMCA consider the risk raised in the GAD report has been mitigated by the proposed merger.

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CITY OF WOLVERHAMPTON C O U N C I L	Pensions Committee 19 June 2019
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Report title	Budget Monitoring 2018/19 and Quarterly Accounts March 2019	
Originating service	Pension Services	
Accountable employee	Darshan Singh	Head of Finance
	Tel	01902 552768
	Email	Darshan.Singh@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for information:

The Committee is asked to note:

1. The quarterly accounts for the period ending 31 March 2019, which show that:
 - the value of West Midlands Pension Fund at this date was £15.7 billion, an increase of £294 million from 31 March 2018;
 - the value of West Midlands Integrated Transport Authority Pension Fund at this date was £491.7 million, a decrease of £0.3 million from 31 March 2018.
2. The outturn against operating budgets as at the end of March 2019, is an over spend of £8.7million, primarily attributable to greater transparency over reported investment management costs following early adoption of new industry-wide reporting templates developed with the Cost Transparency Initiative.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the outturn for the year against operating budgets and quarterly accounts as at the end of March 2019.
- 1.2 The operating budgets for the year to 31 March 2019 were approved by the Committee on 21 March 2018 as part of the Service Plan 2018-2024, a full copy of which can be found on the Fund's website: www.wmpfonline.com.

2.0 Outturn against Operating Budget 2018/19

- 2.1 The following table sets out the outturn compared with the Fund's operating budget as at the end of the final quarter.

	2017/18 Actual	2018/19 Budget	2018/19 Outturn	2018/19 Variance
	£000	£000	£000	£000
Employees	5,579	5,527	5,369	(158)
Premises	382	221	271	50
Transport	65	65	51	(14)
Other Supplies and Services	430	1,177	1,006	(171)
Professional Fees	1,801	1,171	1,111	(60)
Communications and Computing	665	534	372	(163)
Support Services	508	544	560	17
Miscellaneous Income	(810)	(180)	(679)	(499)
Net Expenditure	8,620	9,059	8,061	(998)
External Investment Management Costs	58,900	65,201	75,562	10,336
LGPS Central Charges	-	4,425	3,771	(629)
Total	67,520	78,685	87,394	8,709
Funded by:				
West Midlands Pension Fund	66,770	77,935	86,644	8,709
West Midlands ITA Pension Fund	750	750	750	-
Net Budget	67,520	78,685	87,394	8,709

- 2.2 The under spend on employee costs (£158,000) is due to posts being vacant, or in the process of recruitment during the year. Temporary support has been utilised to support ongoing delivery during recruitment. The underspend on other supplies and services (£171,000) is largely due to project spend in connection with Guaranteed Minimum Pension (GMP) reconciliation work being later than planned and also due to later commissioning of elements of service development work from the administration system provider. The higher premises cost reflected taking on additional floor-space on the 8th floor in Mander house to accommodate increasing workforce and meeting room facilities, replacing some of the space agreed to sub-let to LGPS Central Limited. The underspend on communications and computing relates to reduced expenditure on hardware. Professional fees underspend (£60,000) is due to lower than budgeted actuarial fees for 2018-19. The higher income (£679,000) versus budget (£180,000) relates to actuarial and legal costs recharged to employers for work undertaken on their behalf plus additional income due to additional legal work, ITA management and administration, divorce quotes and other work undertaken by the Fund and recharged. This area can be difficult to forecast as it is affected by the amount of additional work that employers require impact, for example, by the incidence of employer restructuring during the year.
- 2.3 The Fund has been working closely with the Pensions and Lifetime Savings Association (PLSA), the Investment Association and Scheme Advisory Board on the new cost transparency initiative and was part of the trial group to test and develop industry-wide cost reporting templates, capturing for West Midlands, some further previously unreported costs. Whilst the Fund has taken a transparent approach with investment management costs as far as possible, the new cost capture templates that have been developed have enabled even higher levels of transparency from the investment managers. Consequently, as at the end of March 2019, investment management costs were £10 million over the amount estimated for budgeting purposes at the start of the year. The review of 2018/19 investment costs was completed in May 2019, following several months engagement with the Fund's investment managers. The results this year reflect improved cost capture coupled with higher manager response rates, with greater detail, particularly in relation to transaction costs.
- 2.4 LGPSC Ltd costs came in slightly under budget due to some delays in recruitment and recognising the need to avoid building up costs too early as part of product development. The internal investment costs are lower than forecast due to a combination of holding vacant posts following difficulties in recruiting and also reflecting how time is apportioned.
- 2.5 The majority of investment management costs and fees and other costs are deducted at source by fund managers, total investment management costs for the main fund were £79.9m, as follows:

	Actual 2017/18 £000	Forecast 2018/19 £000	Actual 2018/19 £000
External Costs:			
- Invoiced	11,424	10,590	13,362
- Deducted at Source	44,643	51,520	62,200
- LGPS Central		3,944	3,771
Total External Investment Management Costs	56,067	66,054	79,333
Internal Investment Management Costs	2,833	733	578
Total Investment Management Costs	58,900	66,788	79,911

2.6 Cost-per-member is a blunt but widely used measure of pension schemes in assessing cost-effectiveness. The following table sets out the forecast cost-per-member compared to budget, using the three standard headings specified by CIPFA: administration, oversight and governance, and investment management. The cost per member at £23.11 whilst showing an increase on the prior year, shows a decrease against budget. These figures are stated for West Midlands Pension Fund only taking into account the £150,000 recharge to the ITA Fund.

	2017/18 Actual £000	2018/19 Budget £000	2018/19 Outturn £000
Total Administration Costs (£000)	3,826	4,693	5,068
Administration Cost per Member (£)	12.21	14.98	15.65
Total Oversight and Governance Costs (£000)	2,776	3,378	2,415
Oversight and Governance Cost per Member (£)	8.86	10.78	7.46
Number of Members	313,339	313,399	*323,795
Total Administration, Oversight and Governance cost per Member (£)	21.07	25.76	23.11
Total Investment Management Costs (£000)	58,900	69,864	79,911
Investment Management Cost per Member (£)	187.94	222.97	246.79
Investment Management Costs as a Percentage of Forecast Net Assets	0.39%	0.43%	0.51%

*As at 31 March 2019

2.7 The Fund, like all public-sector bodies, continues to be cost-conscious, and keeps its operating costs and procedures under continuous review.

3.0 Quarterly Accounts – West Midlands Pension Fund

3.1 Appendix A provides a Fund Account for the final quarter ending 31 March 2019, and a Net Assets Statement as at that date.

3.2 The Net Assets Statement provides a value for the Fund at 31 March 2019 of £15.7 billion. This is an increase of £294 million from the 31 March 2018 value.

3.3 These quarterly accounts have been prepared in accordance with the key assumptions, set out below:

- One employer made one off lump sum Past Service Deficit Contribution in April 2018 for the year which have been recognised in full in the first quarter;
- Investment income has been calculated based on income due for the period.

3.4 The main reason for the increase in the value of the Fund is a combination of investment income and investment gains over the year amounting to £294.3 million increase overall for 2018/19.

4.0 Quarterly Accounts – West Midlands ITA Pension Fund

4.1 Appendix B provides a Fund Account (unaudited) for the year ended 31 March 2019, and a Net Assets Statement (unaudited) as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 31 March 2019 of £492 million. This is a decrease of £0.3 million from the 31 March 2018 value.

4.3 The main reason for the decrease in the value of the Fund for the year is the change to the value of the bulk annuity buy in (£13.8 million) held to meet pension benefit payments offset with an increase in value of invested assets of £13.4 million.

5.0 Financial implications

5.1 The financial implications are discussed in the body of the report.

6.0 Legal implications

6.1 This report contains no direct legal implications for the authority.

7.0 Equalities implications

7.1 This report has no equalities implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 The report has no human resources implications.

10.0 Corporate landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of background papers

11.1 Service Plan 2019-24

<http://www.wmpfonline.com/CHttpHandler.ashx?id=12474&p=0>

12.0 Schedule of Appendices

12.1 Appendix A: West Midlands Pension Fund Quarterly Accounts 31 March 2019

12.2 Appendix B: West Midlands ITA Pension Fund Quarterly Accounts 31 March 2019 (unaudited).

Appendix A- WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE YEAR ENDING 31 MARCH 2019

Fund Account

2017/18 £m		2018/19 £m
	Contributions & Benefits	
(1,205.9)	Contributions Receivable	(272.7)
(25.6)	Transfers In	(43.5)
(14.5)	Other Income	(14.5)
(1,246.0)	Total Contributions and Other Income	(330.7)
555.9	Benefits Payable	589.7
41.0	Payments To and On Account of Leavers	37.3
0.7	Other Payments	4.4
597.6	Total Benefits and Other Expenditure	631.4
66.8	Management Expenses	87.4
	Returns on Investments	
(241.0)	Investment Income	(237.2)
312.8	Changes in Value of Investments	1,557.0
(615.6)	Profits and Losses on Disposal of Investments	(2,002.2)
(543.8)	Net Return on Investments	(682.4)
(1,125.4)	Net (Increase)/Decrease in the Fund During the Period	(294.3)
14,294.4	Net Assets of the Fund at the Beginning of the Period	15,419.8
15,419.8	Net Assets of the Fund at the End of the Period	15,714.1

Appendix A- WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE YEAR ENDING 31 MARCH 2019

Net Assets Statement

2017/18 £m		2018/19 £m
	Investment Assets (at Market Value)	
188.5	Bonds	339.8
1,492.2	UK Equities	40.0
6,343.5	Overseas Equities	1,301.3
5,351.9	Pooled Investment Vehicles	11,481.8
862.8	Property (Direct)	980.7
-	Derivatives - Futures	20.7
44.9	Derivatives Forward Foreign Exchange	1.0
126.0	Foreign Currency Holdings	690.6
830.1	Cash Deposits	821.8
0.4	Other Investment Assets	51.8
45.2	Outstanding Dividend Entitlement and Recoverable With-Holding Tax	0.5
15,285.5	Investment Assets	15,730.0
-	Investment Liabilities	(154.9)
15,285.5	Net Investment Assets	15,575.1
2.1	Long-Term Investments	-
25.1	Other Long-Term Assets	113.7
151.4	Current Assets	47.3
(44.3)	Current Liabilities	(22.0)
15,419.8	Net Assets of the Fund at the End of the Period	15,714.1

WEST MIDLANDS ITA PENSION FUND UNAUDITED ACCOUNTS FOR THE YEAR ENDING 31 MARCH 2019

Fund Account

2017/18 £'000		2018/19 £'000
	Contributions & Benefits	
(11,434)	Contributions Receivable	(11,135)
-	Transfers In	-
(2,756)	Other Income	(2,831)
(14,190)	Total Contributions and Other Income	(13,966)
29,093	Benefits Payable	30,079
882	Payments To and On Account of Leavers	-
3	Other Payments	8
951	Management Expenses	1,059
30,929	Total Benefits and Other Expenditure	31,146
	Returns on Investments	
(17,843)	Investment Income	(17,267)
(4,740)	(Profits) and Losses on Disposal of Investments and Changes in Value of Investments	(13,372)
16,689	(Increase)/Decrease in Value of Bulk Annuity Insurance Buy-In	13,785
(5,894)	Net Return on Investments	(16,854)
10,845	Net (Increase)/Decrease in the Fund During the Period	326
502,884	Net Assets of the Fund at the Beginning of the Period	492,039
492,039	Net Assets of the Fund at the End of the Period	491,713

WEST MIDLANDS ITA PENSION FUND UNAUDITED ACCOUNTS FOR THE YEAR ENDING 31 MARCH 2019

Net Assets Statement

31 March 2018 £'000		31 March 2019 £'000
	Investment Assets (at Market Value)	
250,593	Investment Assets	263,529
238,333	Bulk Annuity Insurance Buy-In	224,548
3,453	Current Assets	4,441
(340)	Current Liabilities	(805)
492,039	Net Assets of the Fund at the End of the Period	491,713

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report title	Business Performance and Data Management	
Originating service	Pension Service	
Accountable employee(s)	Rachel Howe	Head of Governance and Corporate Services
	Tel	01902552091
	Email	Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for decision:

The Committee is recommended to:

1. Approve the reviewed and updated Data Management Strategy.

Recommendations for noting:

The Committee is asked to note:

1. The progress of work on the Monthly Submissions project
2. The work to progress delivery of Annual Benefit Statements
3. The Fund's Key Performance Indicators as an annual review
4. The work of the Fund on delivering its Digital Transformation Programme.
5. The progress of Guaranteed Minimum Pension (GMP) Reconciliation

1.0 Purpose

- 1.1 To provide Committee with an update on the work of the Fund in delivering improved data quality in line with the Pension Regulator's Code of Practice.
- 1.2 To provide Committee with an end of year overview of Fund performance against its set objectives.

2.0 Data Management Strategy

- 2.1 All Local Government Pension Schemes collect and hold records about scheme members' identities, personal data, pay and their time in the scheme to calculate and pay out pension benefits. Record keeping is a vital part of running a scheme and failure to maintain complete and accurate records means the Fund is at risk of failing to meet its legal obligations. Crucially, it can affect the Fund's ability to complete basic functions such as paying members the right amount at the right time and issuing annual benefit statements as required under the Local Government Pension Scheme Regulations.
- 2.2 In 2018, the Pensions Regulator (tPR) set out its aims of becoming "Quicker, Clearer, Tougher" in its oversight of pension schemes with good clean data quality at the heart of delivering a well governed pension scheme. Good data governance has been a key focus for the Scheme Advisory Board (SAB) and the Local Government Minister, noting the role of data in ensuring the delivery of accurate and timely pension benefit information to members. The Fund launched its Data Improvement Strategy in 2018 collating various workstreams focused on identifying, managing and continuing to improve data quality across the Fund's membership profile through a series of focussed data improvement plans.
- 2.3 The evolving Fund membership, employer base, the cycle of actuarial valuations, developing standards and the increased complexities in the scheme following benefit change, require the strategy to be responsive to change, meeting new requirements and priorities, while retaining the ability to monitor continued and progressive steps to managing data quality.
- 2.4 Attached at Appendix A is the Fund's revised Data Management Strategy for 2019/20. This has been updated with recent changes in the Fund's data management approach following a corporate review of monitoring tools and the continued focus of the Fund on improving services for Members, as outlined in the Fund's Service Plan 2019 – 2024.
- 2.5 In formulating the strategy, the Fund has undertaken a data impact risk assessment, considering the potential outcomes of poor data and how to mitigate them through proactive management. That risk assessment has been used to design data management projects and inform priorities to deliver related initiatives, such as the Fund's Digital Transformation Programme (DTEP), and the 2019 Actuarial Valuation which is heavily reliant on good data in assessing the Fund's liabilities. Progress on these projects is reported monthly to the Fund's Senior Management Team, to Pensions Committee on a quarterly basis and monitored by the Local Pension Board bi-annually, providing oversight and assurance of the Fund's commitment to improved Data Quality.

3.0 Monthly Submissions

- 3.1 While development of the monthly submissions process continues, the Fund has undertaken a review of the delivery and practical application, which currently requires a greater volume of manual work than anticipated at the launch of the programme, restricting reporting back to employers.
- 3.2 For the year 2018/19 the Fund has uploaded and processed all files received and continues to work through the data analysis having recruited additional temporary resource to support and prioritise this work in the lead up to the 2019 Annual Benefit Statement production.
- 3.3 Following the initial launch in 2017, the Fund has undertaken a review of the operation of the monthly submissions programme. The review has focused on increasing efficiency and increasing reporting capabilities back to employers, seeking greater automation of data analysis, streamlining functions for employer and Fund users, reducing manual intervention and enabling greater employer-led validation at the point of upload. The improvements identified will be being delivered in conjunction with elements of the Fund's Digital Transformation Programme with, for example, greater use of shared work trays to manage queries.
- 3.4 This year, the Fund has seen improved employer performance in terms of delivery of monthly submission files compared to this time last year, with approximately 75% of files submitted on time compared to approximately 37% last year. 97% of files have been submitted by year-end compared to 88% last year and the Fund is currently working through the analysis to identify any errors which may prevent the Fund from delivering an individual's Annual Benefit Statement. Engagement with employers continues through the employer engagement roadmap; where identified as necessary, improvement plans will be issued to employers from May through to July (extending over the summer, if required) to assist in the delivery of annual benefit statements.

4.0 Digital Transformation Programme

- 4.1 Digital Transformation
Work continues to develop the Digital Transformation Programme at the Fund, with a number of areas progressing over the last quarter. The aim of the programme is to support the Fund to transform its business areas through the use of information and technology to drive business efficiencies and cost savings whilst improving the service we provide to our members. The associated development work is included in the Funds budget for 2019/20.

In relation to areas of key priority identified following consultation with Fund employers:

- Employer Hub
The Fund has been working in partnership with our software supplier, Civica, to develop a new portal for employers. The existing employer portal is the key method for exchanging data with our employers and is key to ensuring efficient and secure exchange. The new portal is being designed to improve the reporting functionality,

improve the user experience through design, improve availability of performance monitoring information, enabling earlier issue resolution. Throughout the development of this functionality, we continue to engage with the Employer Peer Group to keep them updated on the project and get their views on the development underway to ensure the functionality meets requirements of day-to-day users. The Fund is now developing a more in-depth testing plan, which will be undertaken during the summer, with the aim of implementing the new portal before the end of 2019/20.

- **Employer Web Trays**
Following the initial pilot of this functionality in 2018, further enhancements were identified and raised with our software supplier. We expect the pilot to resume in the near future. This functionality will enable queries with data to be raised with employers via the web portal and the process will be sent to the employers' web-tray for action. This development will support flow of information and assist in the monitoring of queries and resolution, providing insight to the development of employer communications and coaching material.

4.2 Deferred Retirement Quotes Online

As previously reported to Committee, following the amendment to the regulations to allow deferred members to access their pension from age 55, the Fund has seen a significant increase in the number of requests for members. To support the management of this work, the Fund is developing a self-service facility for members. An initial design requirements meeting was held in March, and a more detailed plan for implementation is now being developed.

5.0 Actions to Improve Data Quality

5.1 Annual Benefit Statements 2019

Work has begun to deliver Annual Benefit Statements to Fund members for 2019 with the first run completed for Deferred Benefit Statements. This first run saw an 87% production ahead of the 31 August deadline, and work continues to cleanse the data on identified leavers with the aim of maximising this production further on the second production run to meet the statutory deadline.

As noted above, work continues in assessing and cleansing the data from monthly files, with employer engagement planned to highlight and present queries for resolution prior to the first production run of Active Benefit Statements.

5.2 Common and Conditional Data Analysis

Data Quality remains a key focus area for all governing bodies across the LGPS including the Pensions Regulator (tPR) and the Scheme Advisory Board (SAB).

One measure used by tPR to assess the quality of data across the LGPS is their common and conditional data score.

Common data being the data that is consistent across all schemes (name, DOB, Nino). Conditional data being data that is specific to the scheme (salary, hours, start and end dates).

The Fund participates in the reporting of common and conditional data and this year has reported 98% accuracy of its common data fields. The Fund has been developing a suite of conditional data reports since 2016 and has used the initial output from these to inform data cleansing work, with further development pending awaiting further details on a national standard for the LGPS.

As reported to Committee in September 2018, in June 2018 the Fund received communication from the Local Government Association (LGA) on behalf of the Pension Regulator, confirming that they were moving forward with assessing the possibility of a consistent data approach across the LGPS, responding to concerns from employers and payroll providers about the inconsistent requests for data from different Funds in connection with the conditional data aspect of LGPS data requirements.

5.3 Member Tracing

As part of its review of existing tracing services and provider, in February, the Fund engaged with an external Tracing provider, via the National LGPS Framework for member Data Services to complete a pilot exercise to support the Fund with cleansing and tracing a number of Deferred member addresses.

As part of this process, the Fund has produced a file of identified deferred members where the Fund believes they have gone away from the address held on the system, which has been provided to the third-party provider who has begun a stage process of tracing and validating the data.

The first stage of the process is for the whole data set to undergo a mini trace, to identify potential new addresses. The data is then graded on level of certainty and accuracy of match/trace. Any new addresses which are found and have a higher grading undergo a high-level verification stage, those with a lower graded accuracy rating (linked only on minimal identifiers) are taken through a more in depth verification stage. Currently this process has resolved c40% of new cases, with a further 25% undergoing the second verification stage

6.0 Key Performance Indicators

- 6.1 This year, the Fund has seen a steady increase in its performance which is reflective of the increased workloads and complexities in the scheme, including amendments to regulations enabling early access of benefits for deferred members. As reported to Committee in March, the Fund has engaged with SAB on the timing of issuance of changes to regulations to enable Funds to more fully prepare for amendments to scheme benefits through earlier updates to software systems and the training of employees. This is an issue felt across all LGPS Funds and is not unique to West Midlands.

- 6.2 Workloads continue to increase across all service areas of the Fund, with more demand for face-to-face services and an increase in calls to the Fund's customer call centre. This is reflective of the current pensions culture with more national campaigns and awareness raising of pensions and planning for retirement. In addition, registrations to the Fund's online pensions portal have exceeded target with more than 75,000 members registered to access their benefit accounts. The Fund is continuing to identify more ways to engage its customer base and will, this year, participate in a national benchmarking exercise to assess the value of its customer services looking to identify further ways it can improve and engage the customer experience.
- 6.3 In addition, the Fund is reporting improved performance in the average days of sickness across its employee base which is below average when compared Council wide. Further in its employee development, while average numbers of training have reduced across the employee base, the Fund now has more employees than previous years undertaking a relevant training and/or qualification, with higher levels of reported training hours also coming through for Pension Committee and Local Pension Board members.
- 6.4 Outlined in the Fund's Service Plan 2019-2024 is the continued focus on developing more channels for customer engagement, including the creation of online videos and webinars as the Fund continually reviews and develops its services to meet the increasing demand and the changing way members interact with us. Our People Development Framework will be key to ensuring we have a highly skilled workforce, flexible to the changing environment of pensions and one that supports our colleagues in their personal development and future careers.
- 6.5 A copy of the end of the year KPIs is attached at Appendix B.

7.0 GMP Reconciliation

- 7.1 Since April 2018, ITM have been appointed by the Fund to undertake Stage 2 of the Guaranteed Minimum Pension (GMP) Reconciliation project. This second stage involves raising and resolving disputed contracted out membership queries and agreeing GMP amounts with HM Revenue and Customs.
- 7.2 At the start of the project there were 230,923 discrepancies between the Fund's administration data and the data held by HMRC. These discrepancies were in the form of both membership mismatches, for example members on HMRC records but not on the Fund's administration system or vice versa, and the GMP differences where HMRC holds different GMP values to the Fund's records. All new queries had to be raised with HMRC by 31 October 2018.
- 7.3 At the end of December 2018 just over 28,000 queries remained unreconciled, with the majority awaiting a response from HMRC. The responses were scheduled to be received back from HMRC during March and April 2019.

Summary of Project Position from the Baseline at 23/04/2018 to 21/12/2018:

	Reconciled	Unreconciled	Other (out of scope)
Baseline Totals (as at 23.4.2018)	157,712	230,923	143,385
21.12.2018 Totals	251,221	28,074	248,533
Difference	+93,509	-202,849	+105,148

7.4 It can be seen from the above table that since the baseline was established on 23 April 2018, the number of unreconciled cases has reduced from 230,923 to 28,074, a reduction of 202,849 cases. The reconciled cases have increased to 251,221 and the out of scope cases to 248,533.

7.5 Out of scope cases include the following:

- Members with no liability under the scheme and no corresponding record on the HMRC data e.g. transfers out, refunds
- Members with pre-6 April 1978 service only or post 5 April 2016 service only
- Member with no liability status but another liability record is already linked to a HMRC record.
- HMRC records initially not matched to the Funds records that subsequently are at a later date

7.6 ITM are currently reviewing and processing the responses received after 31 December 2018 and the final Stage 2 Reconciliation report will be issued to the Fund by mid-June. As such, a more comprehensive report will be submitted to Committee as part of the September 2019 meeting.

8.0 Financial implications

8.1 There are no financial implications outlined in the report, however, failure by the Fund to meet statutory requirements could result in a fine from the Pensions Regulator.

8.2 Poor data quality has the potential to impact the Fund's setting of contribution rates as part of the 2019 actuarial valuation. Its ability to assess its liabilities is key to the assessment of Fund's funding level and the setting of employer contribution rates.

8.3 Overriding all duties is the ability of the Fund to pay accurate and timely pension benefits to its members, poor quality of data may result in incorrect payments and/or delays to member finances.

9.0 Legal implications

9.1 The Fund has a statutory duty to provide Annual Benefit Statements to members, failure to produce statements could result in enforcement action from the Regulator.

10.0 Equalities implications

10.1 The Fund's Data Management Strategy has been assessed under the Equality Impact Assessment, no implications were identified.

11.0 Environmental implications

11.1 There are no implications

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 The Pensions Regulator's Code of Practice No14

<https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes>

14.2 The Pensions Regulator's Corporate Plan 2018-2021

<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/corporate-plan-2018-2021.ashx>

14.3 Data Management Report to Pensions Committee 5 September 2018

<https://wolverhamptonintranet.moderngov.co.uk/documents/s84041/Data%20Management%20Report.pdf>

15.0 Schedule of Appendices

15.1 Appendix A: Data Management Strategy 2019

15.2 Appendix B: 2019 Key Performance Indicators



DATA MANAGEMENT STRATEGY

2019/20

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1. Introduction

Appendix A

The West Midlands Pension Fund is one of the largest Local Government Pension Funds in the UK and manages the pension records of over 320,000 members. The Fund is not a legal entity in its own right, it sits as a function of the City of Wolverhampton Council who hold the capacity of Administering Authority.

The Council, and therefore the Fund, are bound by the obligations set out in the Public Service Pensions Act 2013 and associated legislation, including statutory guidance issued by the Scheme Advisory Board (SAB) and the Pensions Regulator (tPR).

In compliance with those obligations, the Fund is required to keep accurate records of member data that is necessary to perform its function as a Local Government Pension Scheme provider.

This strategy has been approved by the Fund's Pension Committee, its implementation and progress for improving data quality across the Fund is monitored by the Fund's Local Pensions Board.

2. Purpose

The purpose of this strategy is to provide a framework for identifying areas for data improvement and to develop and monitor data improvement plans where a data quality issue is identified. It defines the Fund's responsibilities in relation to record keeping and data quality, providing assurance to our stakeholders that their data is managed in compliance with the statutory obligations placed upon the Fund.

The strategy provides the parameters for assessing areas for improvement based on risk analysis and impact assessment. Through effective risk management the Fund is able to mitigate the impact of poor data quality, put plans in place to reduce future impact and improve process efficiencies.

The overriding purpose of this strategy is to set out the Fund's commitment to improving the service it provides to Fund Members thus ensuring:

- Members get the right benefits at the right time and;

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- Actuarial valuations accurately reflect pension benefit obligations and funding requirements for the Fund's employers when reviewing contribution rates.

3. Scope

It applies to all Officers, Pension Committee Members, Pension Board Members, contractors and partner agencies (including employers) who have a responsibility under the legislation to maintain or assist in the maintenance of accurate pension member records.

It applies to all data required by the Fund to administer the scheme and meet the tPR requirements for record keeping covering all types of member (active, deferred, pensioner (including beneficiary)) across all membership records and aims to improve both the current and historical data held by the Fund.

The Fund may hold information about deceased members or members who have transferred out of the West Midlands Pension Fund, this Data Management Strategy applies to their data also where the Fund has a statutory duty to pay beneficiary/spousal benefits and to provide statutory reconciliation of data such as GMP reconciliation.

4. The Legal Basis

In line with the Pension Regulator's Code of Practice 14, Scheme Managers should review their data at least once a year and if there are any issues, put an improvement plan in place to address them. The improvement plan should clearly set out the steps to be taken to improve the data held.

Failure to maintain accurate records can put the Fund, Administering Authority and its employers at risk of failing to meet their legal obligations to members which could result in the Pensions Regulator taking enforcement action to remedy and rectify inaccurate data. It could have a further financial impact if the Fund is unable to accurately assess its liabilities and set appropriate contribution rates.

There is therefore both a legal and reputational risk to holding inaccurate or incomplete data.

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In conjunction with the legal requirement to hold accurate data, the Fund also has a legal duty under the Data Protection Act 2018 and General Data Protection Regulations (EU) to ensure it manages personal information in an appropriate way enabling individuals to access their information while providing assurance as to its security and appropriate use.

For more information on the Fund's compliance with Data Protection, please visit www.wmpfonline.com/informationgovernance

5. Responsibilities

In delivering this strategy, the Fund has identified key owners for certain aspects of its delivery, these are set out as follows:

Role	Responsibility
Pension Committee	<p>As the decision-making body for the Fund the Pension Committee has ultimate responsibility for adhering to the legislation on managing and protecting data. This includes the responsibility for ensuring effective management processes are in place to ensure compliance.</p> <p>All members of the Pensions Committee are required to undergo data protection training.</p>
Local Pensions Board	<p>To monitor the delivery of this strategy and the activity taken to improve data quality where issues are identified. On a bi-annual basis the local pensions board will receive updates on the progress of the Fund's Data Management project with responsibility for ensuring focussed resource and delivery of improvements.</p> <p>All members of the Local Pensions Board are required to undergo data protection training.</p>

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<p>Officers</p>	<p>As users of the Fund’s data (in the processing of member benefits), officers have the responsibility to ensure the information they access is relevant, secure and used only for the purpose of providing pension benefits. Each individual officer is responsible for highlighting discrepancies in data, for raising queries where discrepancies are highlighted and for rectifying incorrect information on a member’s record.</p> <p>All officers of the Pension Fund are required to undergo bespoke data protection training with the Fund’s governance officer tailored to the level of access to data required by their individual role.</p> <p>The Head of Governance and Corporate Services holds the role of Data Protection Officer for the Fund and is responsible for the ongoing compliance with the Data Protection legislation.</p>
<p>Partner Agencies (including employers)</p>	<p>Are required to adhere to the Fund’s Pension Administration Strategy which sets out data quality requirements and performance expectation in the delivery of member data to the Fund.</p> <p>In addition, contractors also have an obligation to adhere to the Data Protection Act when processing Fund data, the Fund requires all such contractors to enter into data sharing agreements providing assurance of their protection and use of the data provided.</p>

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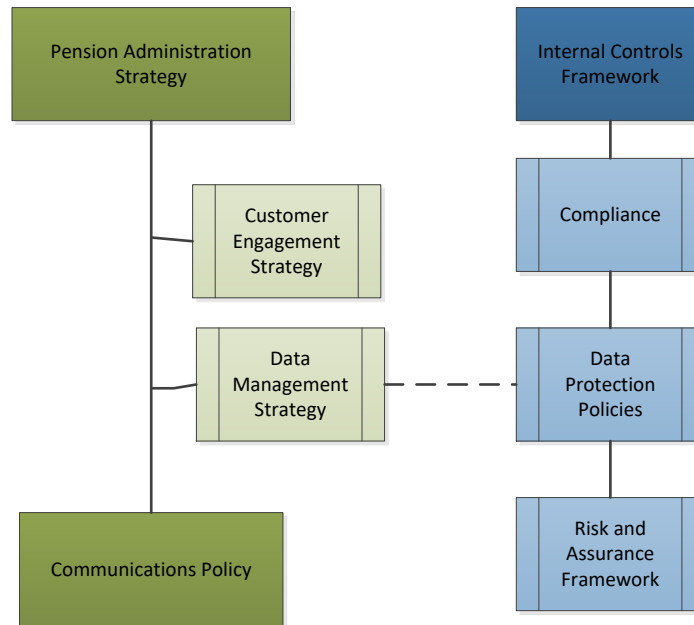
Contractors	Are required to adhere to the Fund’s Data Protection Policy, including providing assurance of their own data management arrangements. Each contractor or third party is required to enter into a data sharing agreement with the Fund confirming the need for the sharing of data, the restrictions of use and confirmation by them of the safe and secure storage of data where it is passed for the performance of a service.
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6. Strategy Objectives

The Fund has identified the following objectives which are supported through the delivery of our corporate strategies and policy framework.

- To improve member **experience** of the Fund providing accurate information at the right time to enable them to make informed decisions about their retirement options.
- To improve **efficiency** in the Fund’s processes, including provision of benefit information and payments, keeping administrative costs manageable and meeting KPIs
- To increase **automation** in Fund processes and enable greater self-service in the context of increasing demand.
- To maintain employer **confidence** in the assessment of liabilities and the appropriateness of their contribution and recovery plans set for funding purposes.
- To enable the Fund to meet regulatory record keeping **standards**
- To ensure the Fund effectively **protects** personal data in line with legislative requirements, including GDPR
- To ensure **compliance** with code of practice including the recording and reporting breaches of law.

Policy Framework



7. Key Outcome Indicators

In monitoring the delivery of this strategy and the ongoing analysis of the Fund’s data quality the Fund has identified key outcomes to be achieved from the effective implementation of data management projects.

These include;

- A greater understanding of the Fund’s data, its use across all service areas and its impact on service delivery
- Identified service development opportunities which lead to efficiencies in service delivery for key stakeholders
- Shared focus on data management across the Fund with identified ownership across individual service areas

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- Effective oversight of the Fund's compliance with statutory requirements on data
- A risk-based approach to assessing impact against action in the improvement of data quality

We will measure the success of these outcomes through

- **Regulatory** - Continual improvement of the Fund's attainment to meet regulatory standards on data quality
- **Reputational** - The timely and accurate issuance of benefit information to members within set KPIs
- **Compliance** - Respond within statutory timescales to data protection queries
- **Operational** - Reduce processing times and improve benefit operation KPIs

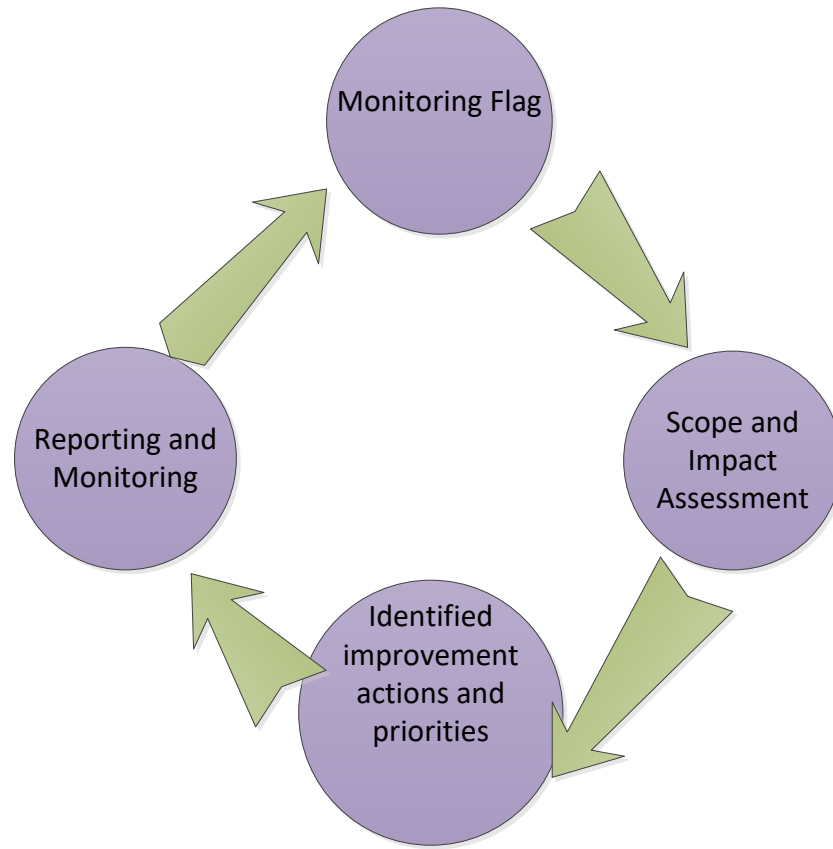
These outcomes are monitored on a regular basis by the Fund's Senior Management Team, Pensions Committee and Local Pensions Board through the monitoring of Key Performance Indicators and the Fund's compliance monitoring programme reported on a monthly/quarterly basis.

8. Data Strategy Impact Assessment

Poor quality data can have a detrimental impact on the Fund's relationship with stakeholders due to unnecessarily long processing times, constant queries, and an inability to report and manage performance against the Fund's and Regulator's expectations as outlined in the Pension Administration Strategy.

The Data Strategy Impact Assessment is the process by which the impact of data (actual or potential) is assessed and prioritised at an operational level through discussion with all service areas. Identified trends are then taken forward to establish data improvement priority actions, those with the biggest **impact** and **value**.

Those priority actions are transcribed into operational data improvement plans to enable a focussed delivery on improvement with identified action including long term service development.



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Monitoring outcomes which may result in improvement action being taken	Monitoring Tool
Inability to load monthly file or loading with significant errors	Dashboard reporting on monthly submissions
Analysis of employer information against scheme records which raises a number of queries (e.g. missing earnings)	Common and conditional data reports from the pension administration system
Falling performance relative to KPIs	Operational Key Performance Indicators
Increased number of operational data improvement plans	Data Improvement projects tracker reported quarterly to Senior Management Team
Delay in responses to queries (from member or employer)	Operational Key Performance Indicators
Charges issued in line with the Pension Administration Strategy	Employer Performance Dashboards
Changes in statutory requirements	Internal Controls Framework
Increased demand from stakeholders which require service development	Statistical analysis of member contact through pensions services

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Identifying priorities Through the effective monitoring of the Fund's performance and its service delivery, it is able to identify areas for improvement and service development to ensure it is able to meet the ongoing demands of its customers.

Where a drop in performance, or an improvement to service delivery is identified, the Fund, through its Data Management Sub Committee, will assess the impact of that change. The impact is assessed twofold, first its impact on the Fund's ability to meet its statutory duty and second in its impact to the Fund's customers, their ability to plan their future income in retirement and the effect any change in service may have on their access to and understanding of their pension benefits.

Through effective impact analysis, the Fund can determine the priority actions for the improvement of service delivery led by the focussed improvement on the Fund's data.

Delivery against those priority actions is reported to and monitored by the Pension Committee and Local Pensions Board.

9. GDPR

Underpinning the work that the Fund is doing to improve its data quality is the need to adhere to the Data Protection Act 2018 (to be read alongside the General Data Protection Regulation as directed by the European Union). The changes to data protection legislation provide more robust rights to the data subject (the member) in the way in which organisations collect, process and share their personal information.

The Fund recognises that certain changes are required to ensure that the principles of data protection and the individual rights of the member are not breached, especially considering the significant reputational and financial consequences should a serious data breach occur.

The Fund has acted to amend the required processes, such as the sharing of personal information to third-parties to maintain confidence in the Fund's ability to manage our members' data appropriately and in line with statutory guidance.

Further information on the work of the Fund to adhere to Data Protection Law can be found on our website www.wmpfonline.com/dataprotection.

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The following aspects are worth highlighting in the relationship between improving data quality and adhering to GDPR

- The introduction of Monthly Data Submissions and the work that is being undertaken to cleanse historical data discrepancies ensures that the Fund meets the requirement that individuals' personal information should be kept accurate and up-to-date. The frequency of the monthly files received from employers and subsequently the feedback provided on outstanding current and historical data queries enables the Fund to continue to build confidence in its data quality.
- By ensuring high levels of data quality the Fund is prepared to react to requests for information from its members (Subject Access Requests). It is able to provide back to the member information that is relevant, accurate and complete
- The Fund is required to publish a privacy notice to outline how the Fund manages its members' data, including who it shares personal information with and for what purposes it may be used. This transparency places a responsibility on the Fund to ensure that its data is of high quality while giving assurance to the members that the third parties we engage with maintain the same standard of care of our members' data

10. Ongoing Improvement

This strategy and associated plans are intended to provide a continuous cycle of data analysis ensuring the Fund remains committed to ensuring complete data accuracy in the information it holds about its members.

The Current Data Management activity will be reviewed and updated at each meeting of the Data Management Sub-Committee to ensure they achieve the desired outcomes of this strategy and deliver a high-quality service to our members.

Approved by




Pension Committee (Version 1)	March 2018
Local Pensions Board (Version 2)	July 2018
Pension Committee (Version 3)	June 2019





Freq	Description	Target	Lead Officer	2019 (Score and RAG)		2018 (Score and RAG)		Improvement/Deterioration
REFUNDS								
M	Notify member of Refund within 10 days	90%	AR	●	77.8%	●	89.6%	↓ -11.8%
	Refund payments processed within 5 days	90%		●	97.8%	●	99.3%	↓ -1.5%
ACTIVE RETIREMENTS								
M	Retirement options to members within 15 days	90%	AR	●	63.7%	●	55.0%	↑ 8.8%
	Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		●	99.1%	●	99.3%	↓ -0.2%
	New retirement benefits processed for payment following receipt of election within 5 days	90%		●	91.7%	●	97.8%	↓ -6.1%
DEFERRED RETIREMENTS								
M	Retirement options to members within 30 days	90%	AR	●	55.6%	●	90.5%	↓ -34.9%
	Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		●	97.0%	●	96.4%	↑ 0.6%
	New retirement benefits processed for payment following receipt of election within 5 days	90%		●	94.4%	●	94.6%	↓ -0.2%
TRANSFERS IN								
M	Transfer in quotations processed within 10 days of receiving all the required information	90%	AR	●	97.0%	●	82.6%	↑ 14.4%
	Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		●	96.5%	●	93.1%	↑ 3.4%
TRANSFERS OUT								
M	Transfer out quotations processed within 20 days	90%	AR	●	94.6%	●	89.2%	↑ 5.4%
	Transfer out payments processed within 10 days	90%		●	90.0%	●	85.9%	↑ 4.1%
DEATHS								
M	Acknowledgement of a death within 5 days of receiving the notification.	90%	AR	●	97.1%	●	96.1%	↑ 1.0%
	Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		●	93.2%	●	91.6%	↑ 1.6%
	Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		●	100.0%	●	99.8%	↑ 0.2%
EMPLOYER AND MEMBER SERVICE - CALLS								
M	85% of calls received to the customer helpline to be answered.	85%	ST	●	81.7%	●	88.6%	↓ -6.9%
M	85% of calls received to the employer helpline to be answered.	85%	ST	●	93.3%	●	94.6%	↓ -1.3%
CUSTOMER SATISFACTION/SURVEY								
M	Overall member satisfaction score for members to be 90%.	90%	ST	●	100.0%	●	100.0%	→ 0.0%
M	Overall employer satisfaction score for employers to be 90%.	90%	ST	●	99.0%	●	100.0%	↓ -1.0%
6 M	Satisfaction rate from feedback of trustee training/pension board events to be 90%.	90%	RH	●	100.0%	●	100.0%	→ 0.0%
Q	Web Portal Registrations	Target 65000	ST	●	78570			
INVESTMENT RETURNS/OVERALL FUND PERFORMANCE								
M	Main Fund - Returns to be 0.5% above the benchmark (3 Yr. Rolling)	+/- 0.5%	JD	BENCHMARK	9.50%	BENCHMARK	13.10%	↑ 0.20%
				ACTUAL	9.20%	ACTUAL	12.60%	
M	ITA Fund - Returns to match the benchmark (3 Yr. Rolling)	+ 0	JD	BENCHMARK	7.90%	BENCHMARK	10.00%	↓ -0.50%
				ACTUAL	7.50%	ACTUAL	10.10%	
BENEFIT STATEMENTS								
A	ABS produced for 100% of active member records	100%	RH	●	85.0%	●	79.0%	↑ 6.0%
	DBS produced for 100% of deferred member records	100%		●	99.7%	●	98.6%	↑ 1.1%
CONTRIBUTIONS RECEIVED								
M	Main Fund - Employers to pay contributions	100%	JD	●	98.2%	●	98.4%	↓ -0.2%
	ITA Fund - Employers to pay contributions	100%		●	100.0%	●	94.2%	↑ 5.8%

Freq	Description	Target	Lead Officer	2019 (Score and RAG)	2018 (Score and RAG)	Improvement/Deterioration
EXTERNAL ACCREDITATION						
6 M	The Fund to be shortlisted for 75% of the awards in which it is entered	75%	RH	Applications	Applications	↑ 23.0%
				8	13	
				No. Pending	No. Pending	
				2	0	
				0	3	
				1	10	
Percentage Shortlisted	Percentage Shortlisted	● 100%	● 77%			
SICKNESS ABSENCE						
M	Average number of days lost to sickness per FTE member of staff. Sickness absence to be under 6 days per annum per member of staff - cumulative.	6 days	RH	● 6.4	● 8.2	↓ -1.8
COST PER MEMBER						
Q	Administration and governance cost per member to be reduced from budgeted figure of £26.51	£ 26.51	DS	● £23.11	● £20.37	● -£2.74
TRAINING HOURS						
Q	Average CPD per Fund employee to be 22 hours or more.	22 Hours	RH	● 33.8	● 40.2	↓ -6.4
DATA QUALITY						
M	Common data Main Fund	99%>	RH	● 96.5%	● 99.4%	↓ -2.1%
	Common data ITA	99%>		● 98.0%		
	Conditional data Main Fund	95%>			● 98.6%	
	Conditional data ITA	95%>				
TRUSTEE TRAINING AND PENSIONS BOARD						
M	Amount of training completed to trustees/board members during the year. (average per member)	22 hours	RH	● 40.9		
STAFF TURNOVER						
M	Staff turnover to be between 5-10% in a financial year	5% - 10%	All	● 14.0%	● 14.4%	↓ -0.4%
AVAILABILITY OF ONLINE SERVICES						
M	Website and web portal to be available 95% of the time (based on working hours as monitored)	95%	AR	● 99.0%	● 99.6%	↓ -0.6%
M	Number of occurrences web portal is unavailable	10 per month		● 3.4		↓ 3.4
IDRP						
A	All IDRP cases completed within 60 days	60 days	AR	● 52.9 days	● 61.7 days	↓ -8.8
COMPLAINTS MONITORING						
M	All complaints to be completed within 15 working days of receipt	100%	ST	● 97.7%	● 99.6%	↓ -1.9%

FREQUENCY KEY	
T	Triennial
A	Annual
Q	Quarterly
6 M	6 Monthly

The below commentary provides further detail on those Key Performance Indicators achieving, on average, below target at year end, noting continual improvement throughout the year.

KPI	Year end performance	Commentary
REFUNDS		
78% vs target of 90%		<p>The Fund has seen an increase in workloads across all service areas over the last 12 months as it continues to grow in membership and employer numbers. Resource has been focussed across the Fund to manage peaks and demands. The Fund continues to recruit to all service areas.</p> <p>By the end of the year, the processing of refunds achieved KPI at 95.7% with 100% of refunds being paid within 5 days.</p>
ACTIVE RETIREMENTS		
63% vs target of 90%		<p>The fund's membership profile is ageing and over the coming years will see more members move into the category of pensioner than active or deferred member.</p> <p>The Fund has seen an increase in workloads across all service areas over the last 12 months as it continues to grow in membership and employer numbers. Resource has been focussed across the Fund to manage peaks and demands. The Fund continues to recruit to all service areas.</p> <p>By the end of the year the fund had improved its performance for producing retirement options to members and achieved 86.6% against the 90% target</p>
DEFERRED RETIREMENTS		
56% vs target 90%		<p>The amendment to the scheme regulations allowing deferred members to access their benefits at the age of 55 resulted in the Fund seeing a significant increase of requests for deferred retirement quotes and saw an impact on the Fund's customer call centre also. Work has been undertaken on the team to manage these requests with the continual improvement of the KPI since the regulatory change in July. for April 2019, the KPI has increased to 92.44%</p>

MEMBER SERVICES - CALLS		
82% vs target 85%		In addition to the increase in demand on the Fund's call centre resulting from the changes to access to benefits for deferred members from the age of 55, the recent government initiatives encouraging individuals to be more pension aware in planning for retirement has seen calls to the Fund's contact centre increase by 22%. During July, when the changes to regulation were announced, the Fund saw an increase in calls of circa 2000 for that month alone.
BENEFIT STATEMENTS		
85% vs 100% target		This year the Fund delivered a rolling program of benefit statement production for active members with the aim of maximising production following a data cleanse exercise with employers. As a result of the data cleanse, the Fund was informed of circa 12,000 known leavers from employers, for who the Fund were yet to receive leaver paperwork but were informed by employers that they had left the Fund. Therefore the Fund produced 85% of ABS out of a possible 88%.
DATA QUALITY - COMMON		
		Since 2017/18 the Fund have reviewed and amended its system reports for assessing data quality - common data. The new reports provide a more accurate analysis of the Fund's position on data quality.
STAFF TURNOVER		
		Last year's turnover can be attributable to the transfer of staff to LGPS Central on 31 March 2018.

CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report Title	Pensions Administration Report 1 January to 31 March 2019	
Originating service	Pension Services	
Accountable employee(s)	Amy Regler Tel Email	Head of Operations 01902 555976 amy.regler@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Committee is recommended to:

1. Approve the write-offs detailed in section 10.0 of this report.

Recommendations for noting:

The Committee is asked to note:

1. 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.
2. 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.

1.0 Purpose

1.1 To inform Committee of the work undertaken by the pensions administration service during the period 1 January to 31 March 2019 for both the Main Fund and the WMITA Fund.

2.0 Background

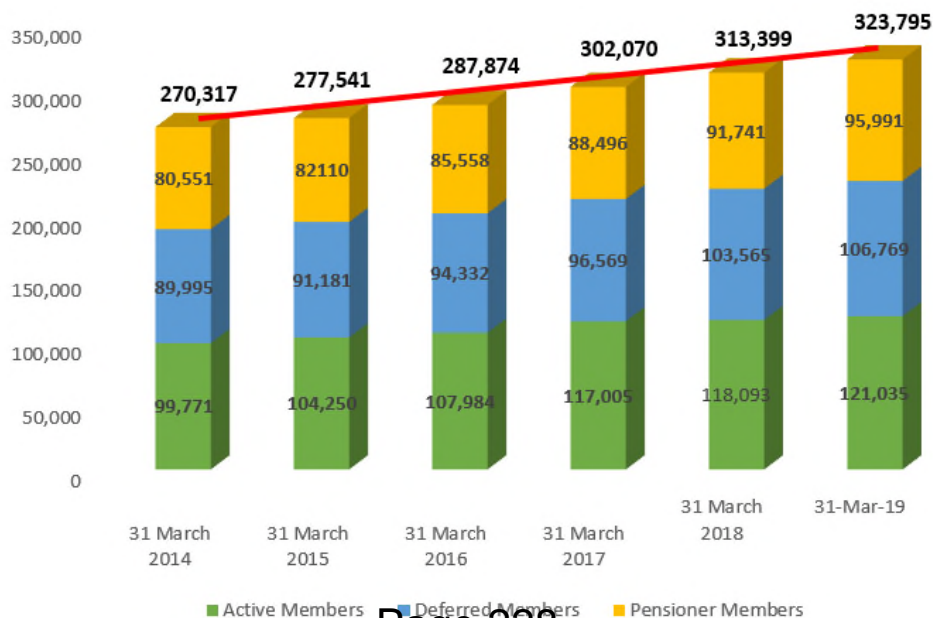
2.1 The Fund provides a pension administration service to its stakeholders, which covers employer, customer and member services, data management, benefit operations, payroll and systems/technical support. A report is provided to Committee on a quarterly basis to cover the activity and performance of these functions during that period.

3.0 Scheme Activity

3.1 Membership movement – Main Fund

3.1.1 The total number of scheme member records in the Fund at 31 March 2019 stands at 323,795, with an overall increase since December 2018 of 5,294, totalling an increase of members for 2018/19 of 3%. Over the last five years there has been an average growth rate in membership of 4%, which is stable year on year. The long-term trend over a 12 year period in membership is set out in Appendix A, which illustrates a move towards a more mature profile whereby, in general, active, pensioners and deferred membership continues to rise.

	Membership as at 31 December 2018	Net Movements during the period	Membership as at 31 March 2019
	Total	Total	Total
Active Members	118,365	2,670	121,035
Deferred Members	105,222	1,547	106,769
Pensioner Members	94,914	1,077	95,991
Total Members	318,501	5,294	323,795



3.2 Membership movement – WMITA Fund

3.2.1 The number of scheme member records in the WMITA Fund in all three categories stood at 4,942 on 31 March 2019, 6% are active members, 13% are deferred and the largest group are pensioner members at 81% of the total membership. The Fund is closed to new joiners but active members continue to accrue benefits. Detailed below are the current membership numbers showing movements between 31 December 2018 and 31 March 2019.

	Membership as at 31st December 2018			Net Movements during the period			Membership as at 31st March 2019		
	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total
Active Members	321	0	321	-8	0	-8	313	0	313
Deferred Members	662	11	673	-19	0	-19	643	11	654
Pensioner Members	3850	117	3967	10	-2	8	3860	115	3975
Total Members	4833	128	4961	-17	-2	-19	4816	126	4942

3.3 Workflow statistics – Main Fund

3.3.1 The process analysis statistics (Appendix B) show details of overall workflow within the Pensions Administration Service during the period 1 January to 31 March 2019.

3.3.2 During the period covered by this report, 43,900 administrative processes were commenced, a 10% increase compared to the previous reporting period and 39,048 processes were completed, a 7% increase compared to the previous reporting period. Overall for 2018/19, the Fund has seen a 21% increase in the number of processes commenced, and a 13% increase in the number of processes completed compared to the previous year 2017/18.

3.3.3 On 31 March 2019 there were 43,194 items of work outstanding. This represents an increase of 1,682 items outstanding compared to 31 December 2018 (41,512). Of the 43,194 items of work outstanding, 5,663 items were pending as a result of information awaited from a third-party e.g. scheme members, employers or transferring authorities. Within pensions administration, 37,531 processes are now either proceeding to the next stage of the process or through to final completion.

3.3.4 The number of active processes remains high. From 1 January to 31 March 2019, the Fund continues to see an increase in the processes commenced, a 10% increase compared to the previous reporting period. The total number of processes outstanding remains high and the key areas of significant volume include early leavers (deferments and refunds) and member movement within the Fund. This increase represents a combination of;

- The targeting of certain processes to update member records, which is expected to support in the reduction of outstanding work in the longer term
- The work with employers to target historical data quality issues, which is likely to continue for a period but will support the long term position for the Fund.
- Introduction of new employer policies and or regulations for example, auto enrolment staging dates and changes to annual leave policies.

3.3.5 The Fund has been reviewing the volumes of incoming work and putting in place plans to address key high volume areas. System development is being investigated as part of the Digital Transformation Programme, in a number of areas to provide longer term, cost-effective support for increasing volumes of benefit processing work.

3.3.6 A detailed analysis of the key processes completed across all operational functions e.g. calculating benefits for retirements, pensioner member data changes as well as the maintenance of updating membership details is shown in Appendix C.

3.4 Workflow statistics – WMITA Fund

3.4.1 During the period covered by this report 459 administrative processes were commenced and 449 completed. On 31 March 2019 there were 155 items of work to be processed.

3.5 Key Performance Indicators (KPIs)

3.5.1 The Fund uses a number of KPIs to measure performance when processing items such as Transfers In and Out, Retirements and Deferred Retirements.

3.5.2 There are a number of KPIs which have been cumulatively achieved throughout the year to date, including the management of death cases, payment of retirements (active and deferred), payment of refunds and transfers.

3.5.3 The increase in volumes of work have impacted on the Fund's ability to meet three of our key performance indicators.

- Notification of estimated retirement benefits – the performance relative to this indicator has overall continued to increase during the reporting period. Further analysis of the cases which missed the targeted timescales of 15 days were due to the requirement to query information with employers. Further engagement is underway with employers to ensure that any delay to members is minimised, and a review of the key trigger points for the KPI to improve future reporting on Fund performance, which will be reflected in the next quarterly report.
- Deferred Retirement Quotes - the amendment to the scheme regulations, allowing deferred members to access their benefits at the age of 55, resulted in the Fund initially receiving approximately 1100 requests for quotes. Fund staff worked additional hours to support in managing these cases. These cases have now all been processed and the KPI is now being achieved from April 2019. Since this change in regulation the Fund now receives on average, an additional 150 requests each month.

3.5.4 Further information on KPIs by process by month over 2018/19 is included in Appendix D.

3.6 Customer services

3.6.1 An overview of our front-line customer contact activity is shown in Appendix E. This outlines the variety and volume of support provided by the Fund to address members' pension queries. An indication of the statistics for the previous year are included within the charts as a comparative measure.

- 3.6.2 Customer contact has stabilised during the first quarter of 2019, with work continuing to improve the member information contained within the Fund's website to increase the ability of members to self-serve. In readiness for the issue of our end of year pension payslips/P60's, the Pensioner web pages were reviewed with the latest information and support based on last year's frequently asked questions. To make this information as visible as possible, we created a google post advertising this information along with a feature on our home page for one-click access. As a result, there has been a noticeable reduction in the number of enquiries in relation to end of year information compared to previous years.
- 3.6.3 All pension fund enquiries received are acknowledged or responded to by the Customer Services Team. The general enquiry emails which aren't resolved immediately are referred to the relevant specialist area and/or are added to an existing benefit operation/payroll process as they require action or more detailed investigation. These again, are monitored and reviewed by the relevant teams. As a result of promoting the use of secure messaging (rather than email) on our contact us pages, we are continuing to see a reduction in emails and an increase in secure messages. Secure Messaging is a secure and more efficient way for customers to ask us questions about their individual circumstances and therefore work will continue to promote this type of contact.
- 3.6.4 The Fund is continuing to explore ways in which efficiencies can be identified to manage and improve service and the customer experience. A 'post retirement' survey was piloted during the first quarter of 2019 which gave us valuable insight into the retirement journey. As a result, we will be rolling out this survey on a monthly basis to gather a continual feedback stream and to collate a representative amount of data to base business improvements on. We are also looking to extend pilot surveys to other processes, with a pilot 'post deferred retirement' survey scheduled in the next quarter.
- 3.6.5 The most popular queries to our contact centre remain as follows:
- Customers following up on an existing Fund process
 - Enquires about accessing pension benefits
 - Requests for Pensions Portal support
 - Requests for support with a Fund Letter/Form
 - Members updating their personal details

4.0 Complaints

- 4.1 The Fund has a complaints monitoring framework, which enables regular monitoring and reporting of the volumes and key trends for the key performance indicator.
- 4.2 The most frequent complaint area in this period relates to delays/processing timescales. Over the quarter, we were instructed to freeze outgoing transfers as the Government Actuary Department were updating the scheme's 'discount rate', one of the factors used to calculate a transfer which impacted this area. The second most frequent complaint area relates to member's disagreeing with the principles of the regulations (e.g. a member wants their pension out as cash but the regulations don't allow this). Work continues to review the member pages of the website to assist with member pension education. Our Member Services Team already provide a wide range of face-to-face pension education events such as presentations, roadshows and drop in sessions.

4.3 Complaints that highlight an improvement area are being investigated and monitored to help shape future services and improve overall customer satisfaction going forward. For example, in this quarter, we have been able to create a new 'bereavement' page to help support our member's personal representatives. We have also added a link to this page in our initial acknowledgement letter, so that they have access to further information on the process from the outset. This mirrors the process undertaken for general customer feedback as per our Customer Engagement Strategy.

5.0 IDRP (Internal Dispute Resolution Procedure) casework

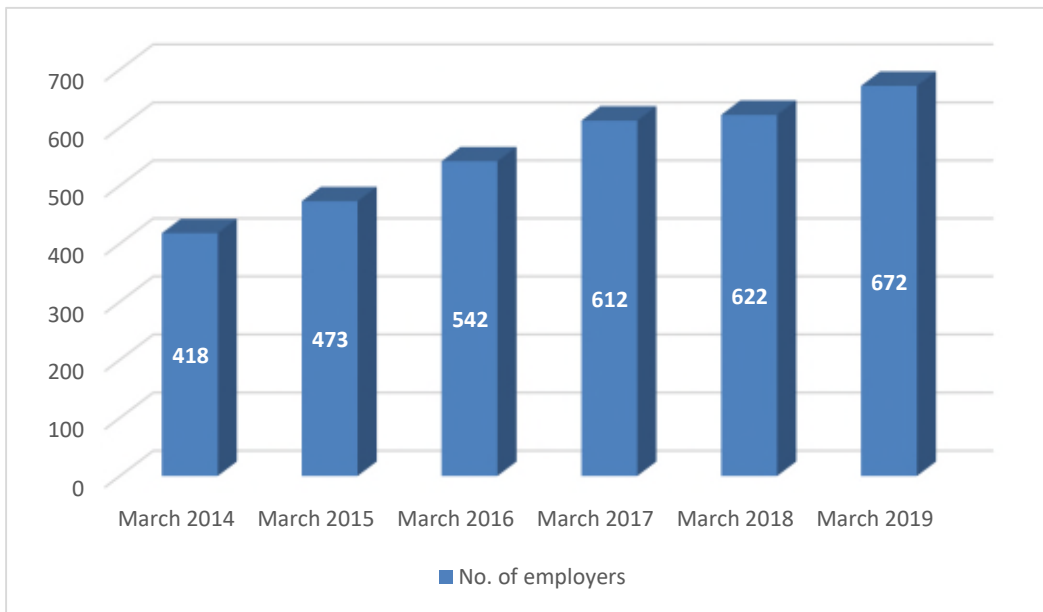
- 5.1 In the 2018/2019 financial year there has been five cases referred to Stage one of the procedure against the Fund. No appeals have been upheld on independent review.
- 5.2 One case has progressed to stage two of the procedure, and this has been dismissed. For the 2019/20 financial year, one case has progressed to stage two of the procedure against the Fund, and this is on-going.
- 5.3 Eight appeals against employer decisions have been received for Stage two investigation, six cases have been dismissed and two cases are on-going.
- 5.4 The case dismissed at stage two against the employer related to terms of leaving employment and being unable to transfer out benefits.
- 5.5 The Fund has noticed a reduction in the number of appeals against employers for early payment of deferred benefits since the Regulations have changed and deferred members are able to take their benefits early from age 55 without employer consent.

6.0 Death grant

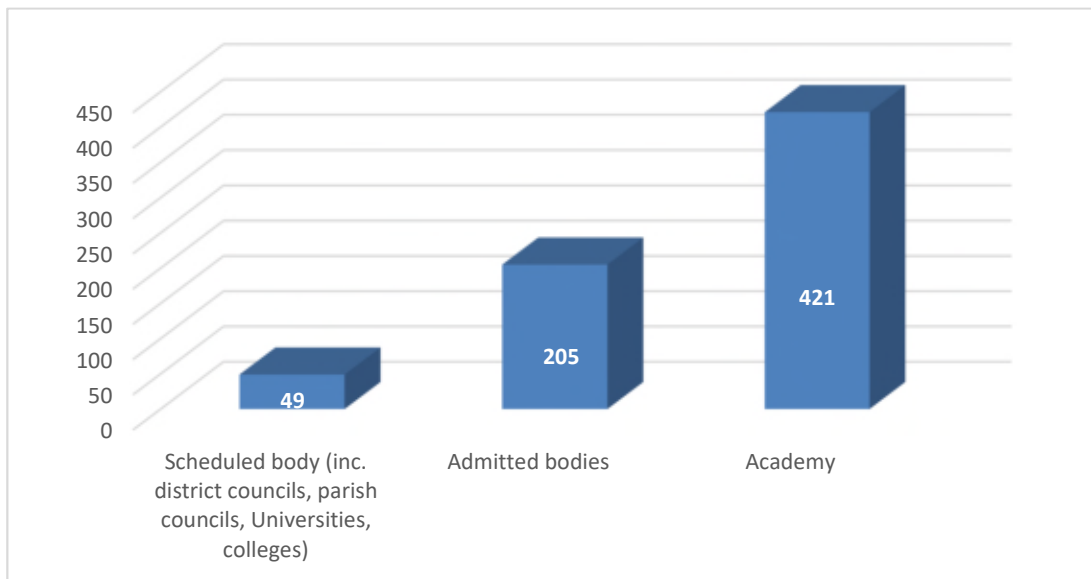
- 6.1 In this financial year no new cases have been referred to the Legal Department for consideration. These are being reviewed on a case by case basis in line with the agreed policy and case matrix.

7.0 Employer membership

- 7.1 The Main Fund continues to see an overall upward trend in employer numbers, with an increase of 14 employers over the previous quarter, due mainly to the establishment of academies and outsourced local government contracts, with 3 new organisations being admitted during the period 1 January 2019 to 31 March 2019 (and a number of backdated agreements becoming finalised). The number of employers registered with the Fund as at 31 March 2019 is 675, a 55% increase since March 2014 as shown in the graph below.



7.2 The level of on-going work being processed at the end of the period is as follows: -



8.0 Application for admission body status

8.1 Organisations must satisfy one or more of the admission criteria before they can be admitted to the Main Fund following Pensions Committee approving the applications. Sometimes a decision is required which is not compatible with the cycle of Pensions Committee meetings. In these circumstances, Pensions Committee has delegated responsibility for approving such applications to the Director of Pensions in consultation with the Chair or Vice Chair of Pensions Committee.

8.2 There have been 12 approvals requested from Committee in regard to applications for admission to the West Midlands Pension Fund which have been approved by the Director of Pensions and either the Chair or the Vice Chair of Pensions Committee. Please see Appendix F for details.

9.0 Pensions in payment

9.1 Pensions in payment – Main Fund

The gross annual value of pensions in payment for the Main Fund to March 2019 was £497.6m, £16.3m of which (£8.1m for pensions increase and £8.2m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.

9.2 Monthly payroll details for the Main Fund were:

Month	Number	Value £
January 2019	79,387	35,247,355
February 2019	79,648	35,335,650
March 2019	95,431	36,465,943

The March figure includes pensioners paid on a quarterly basis.

9.3 Pensions in payment – WMITA Fund

The gross annual value of pensions in payment for the WMITA Fund to March 2019 was £26.3m, of which no further recharges for added year's compensation will be made to employing authorities and other bodies as the member and beneficiary are deceased.

9.4 Monthly payroll details for the WMITA Fund were:

Month	Number	Value £
January 2019	3,901	1,937,355
February 2019	3,910	1,937,422
March 2019	3,966	1,932,484

The March figure includes pensioners paid on a quarterly basis.

10.0 Write-off policy decisions

A write-off relates to pensions overpaid to members, after following the debt recovery policy, these cases become uneconomical to pursue or the estate has insufficient funds to recover. In general, an overpayment is generated by late notification of death of members.

A write-on relates to monies due to the members estate in order to make pension payments up to date of death. After correspondences, the legal representative is untraceable or does not wish to claim the funds.

10.1 Write-off analysis

The following write-offs of pension payments are reported in line with the Fund's policy:

Individual Value	Main Fund		WMITA Fund	
	Number	Total	Number	Total
Less than £100	0	0	0	0.00
£100 - £500	10	2,109	0	0.00
Over £500	2	3,297	0	0.00
TOTAL	12	5,406	0	0.00

10.2 Write-on analysis

Individual Value	Main Fund		WMITA Fund	
	Number	Total	Number	Total
Less than £100	3	93	0	0.00
£100 - £500	1	103	0	0.00
Over £500	0	0	0	0.00
TOTAL	4	196	0	0.00

11.0 My Pensions Portal and Employer Web

11.1 Work is continuing to increase awareness of the My Pensions portal facility for members and Employer Web for employers. There are, as at 31 March 2019, over 78,570 members registered to use the web-portal. Between the period 1 January to 31 March 2019, 4,720 members initiated web registrations (722 of which have not activated their accounts). A breakdown of those registered and authenticated between the Main Fund and WMITA is provided below:

Registered
WMITA - 952
WMPF – 77,618

Since the relaunch of My Pensions Portal in 2017 there has been a marked increase in member registrations.

12.0 Transfer Out Cases

12.1 During the period 1 January to 31 March 2019, 206 transfer values were issued to members considering transferring their benefits out of the scheme.

12.2 In total, 57 transfer payments were made during the period 1 January 2019 to 31 March 2019 resulting in a total amount transferred of £2,382,972 (previous 1 January to 31 March 2018 a total of £6,320,543 was transferred out). This amount is broken down as follows:

Value of Transfer Payments	Number of Transfer Payments
0 to £30,000	39
£30,001 to £100,000	11
£100,001 to £200,000	5
£200,001 to £300,000	1
£300,001 to £400,000	0
£400,001 to £500,000	1
Above £500,001	0
Total	57

13.0 Financial implications

13.1 The report contains financial information which should be noted.

13.2 Employees of organisations who become members of the Local Government Pension Scheme will contribute the percentage of their pensionable pay as specified in the Regulations. The Fund's actuary will initially, and at each triennial valuation, set an appropriate employer's contribution rate based on the pension assets and liabilities of the individual employer.

14.0 Legal implications

14.1 The Fund, on behalf of the Council will enter into a legally binding contract with organisations applying to join the Local Government Pension Scheme under an admission agreement.

15.0 Equalities implications

15.1 This report has implications for the Council's equal opportunities policies, since it deals with the pension rights of employees.

16.0 Environmental implications

16.1 The report contains no direct environmental implications.

17.0 Human resources implications

17.1 This report has implications for the Council's human resources policies since it deals with the pension rights of employees.

18.0 Corporate landlord implications

18.1 The report contains no direct corporate landlord implications.

19.0 Schedule of background papers

19.1 None.

20.0 Schedule of appendices

20.1 Appendix A: Overall membership numbers

20.2 Appendix B: Process analysis

20.3 Appendix C: Detailed process analysis

20.4 Appendix D: Key performance indicators (KPIs)

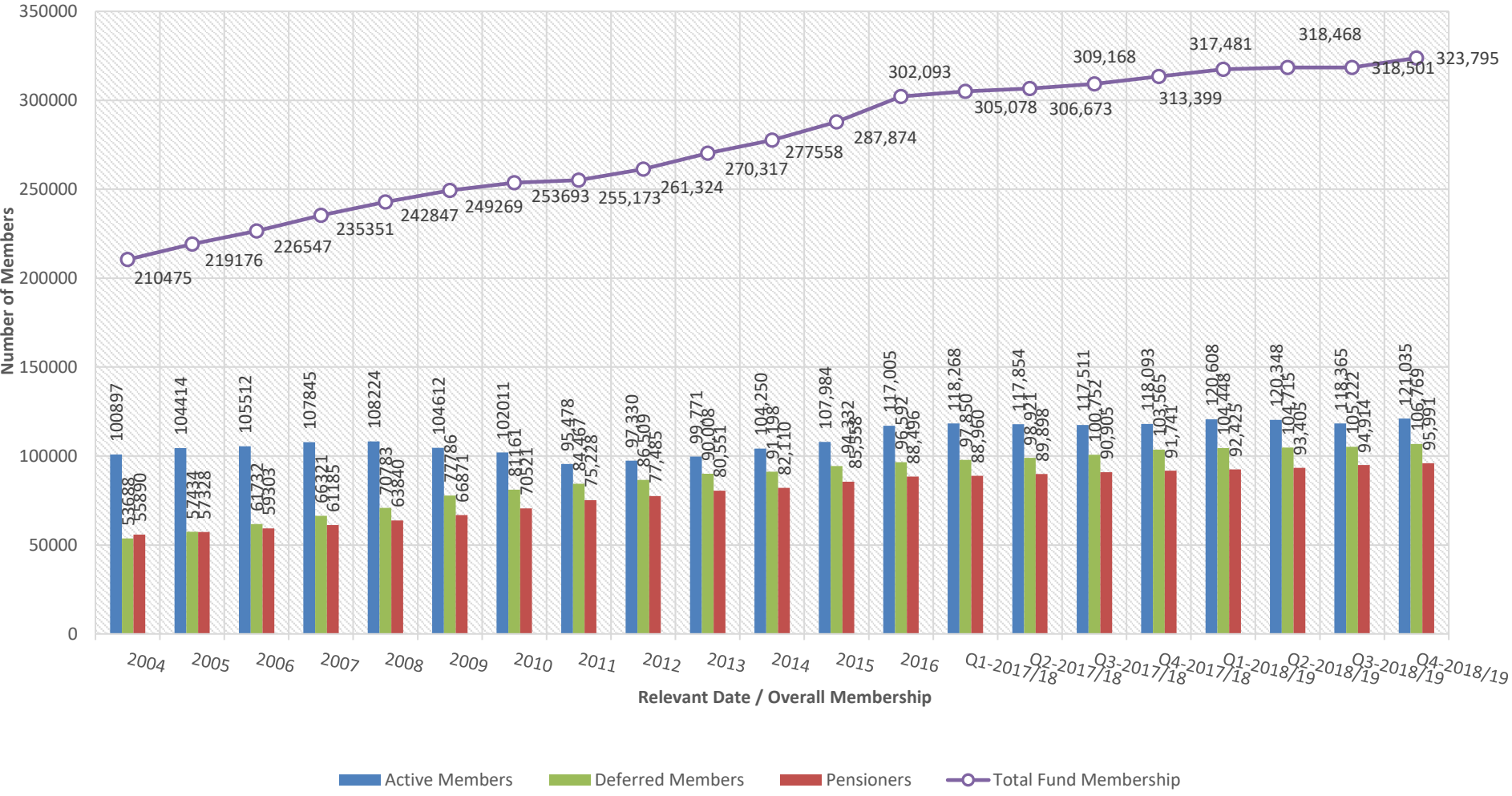
20.5 Appendix E: Customer service statistics

20.6 Appendix F: Admitted Body Applications

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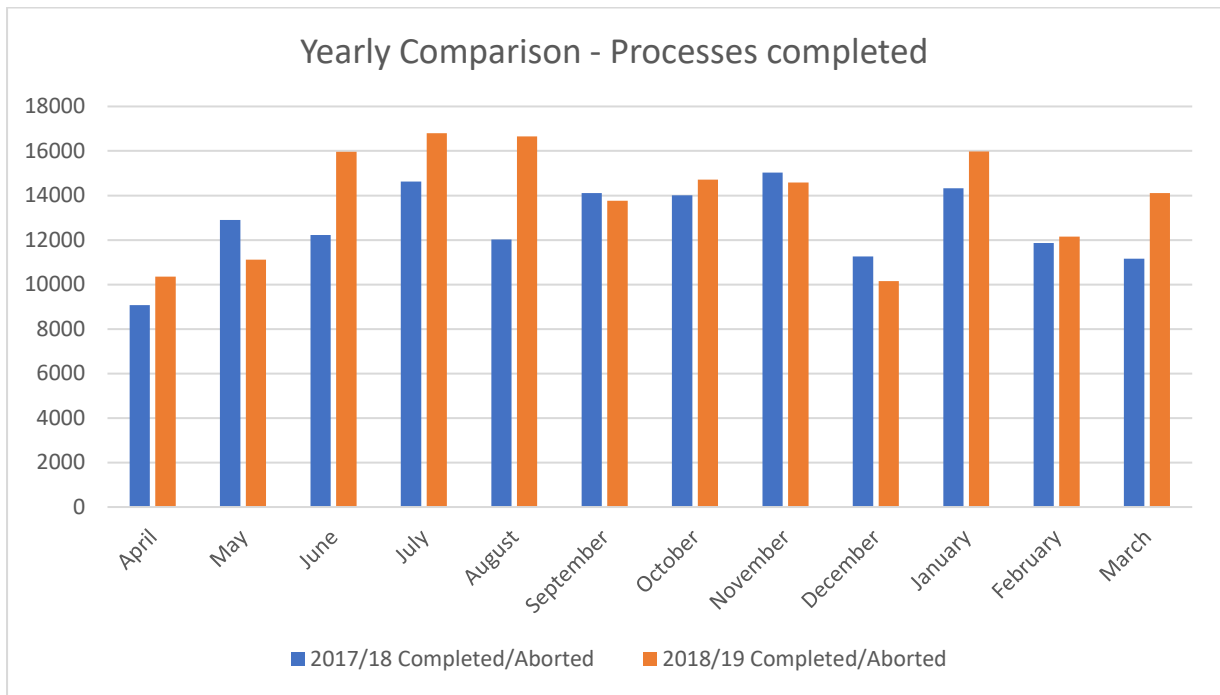
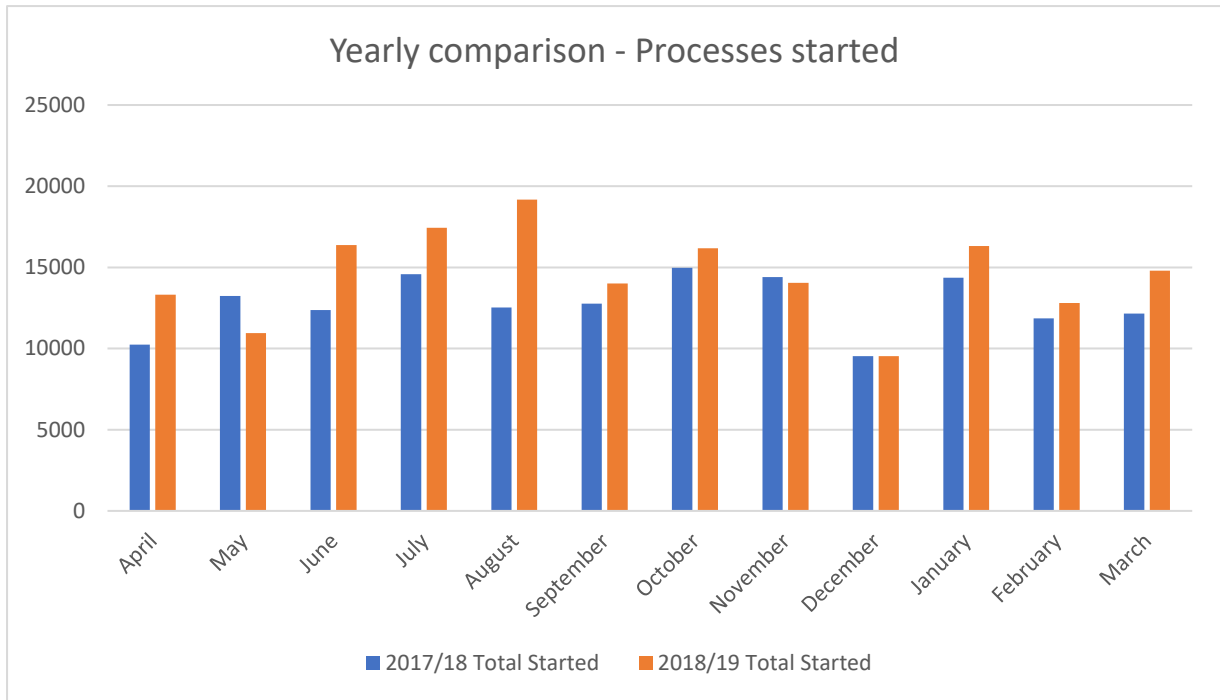
Overall Membership West Midlands Pension Fund Membership Statistics as at 31 March 2019

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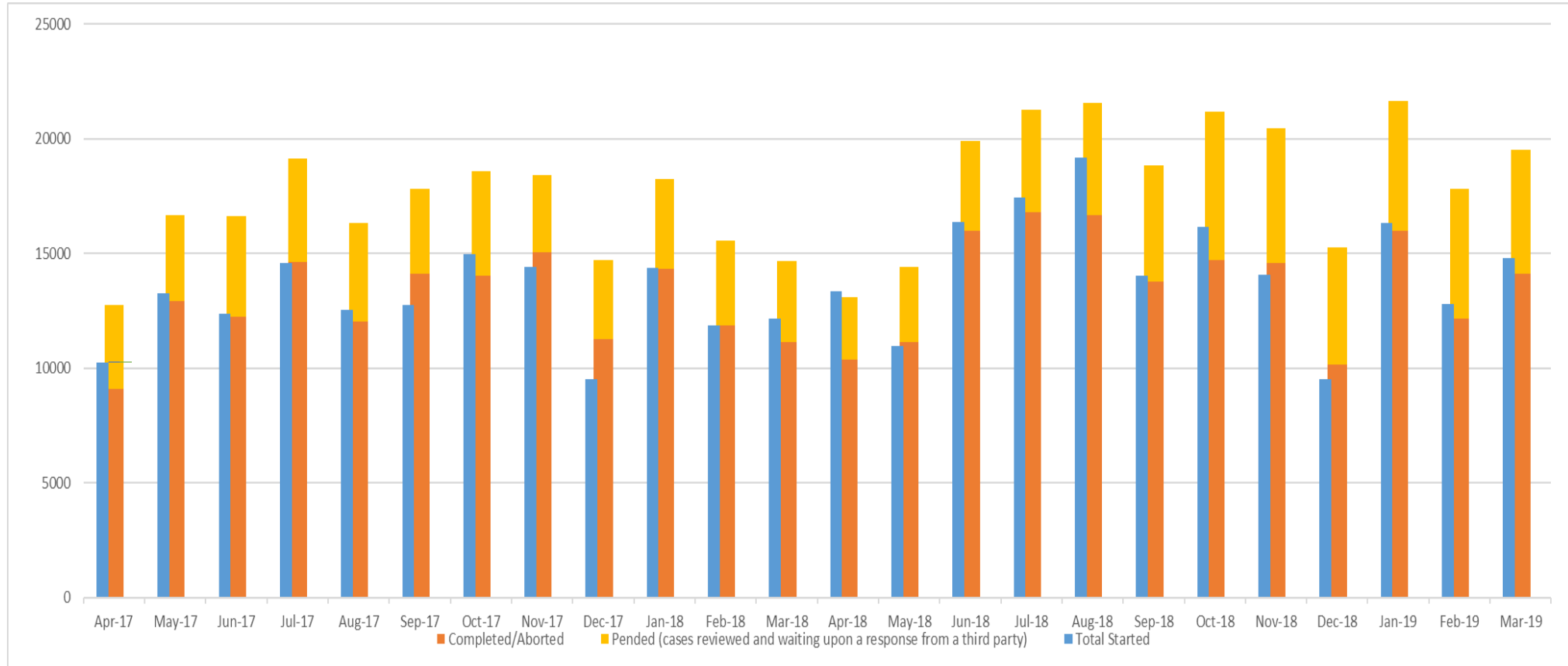


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Appendix B



Yearly comparison – Processes started vs processes actioned

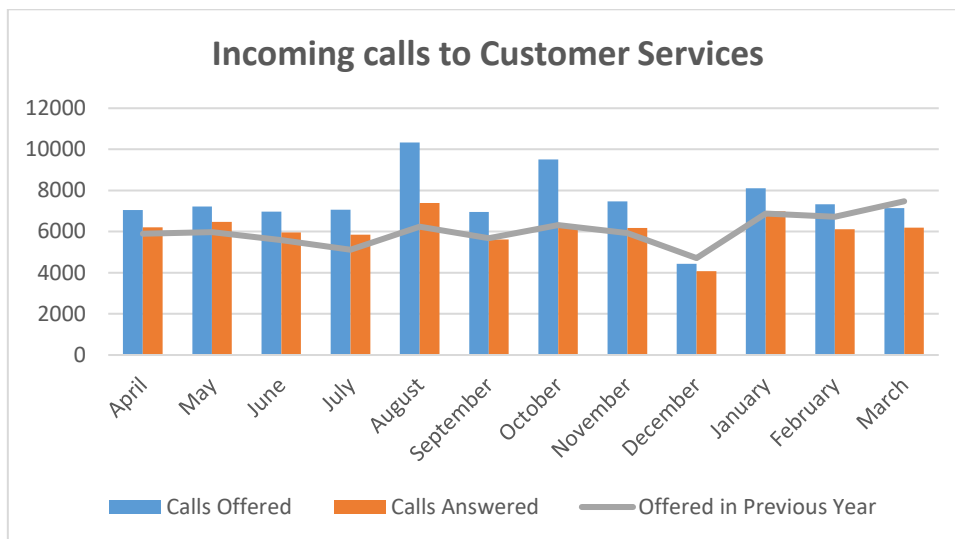


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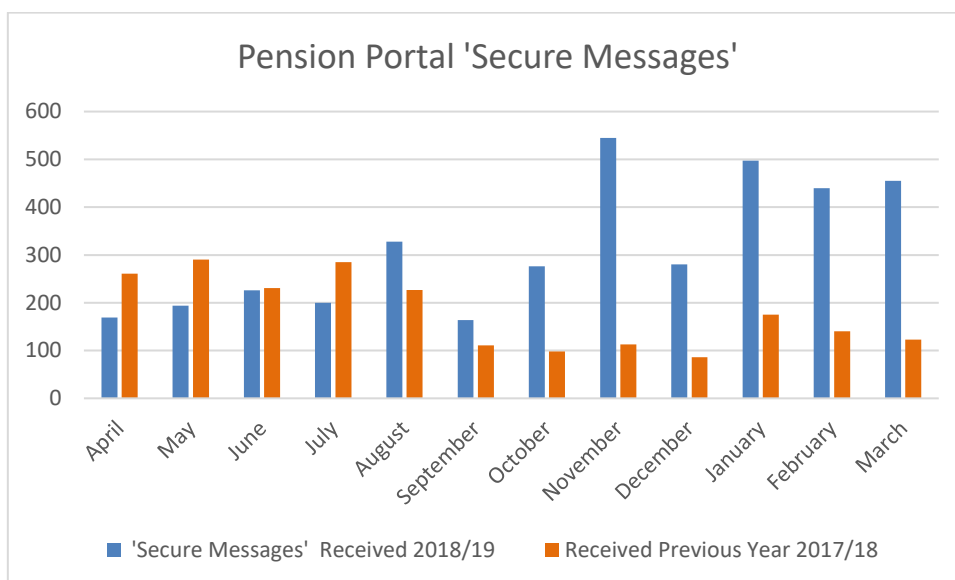
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Appendix E: Customer Service Statistics

1 January 2019- 31 March 2019



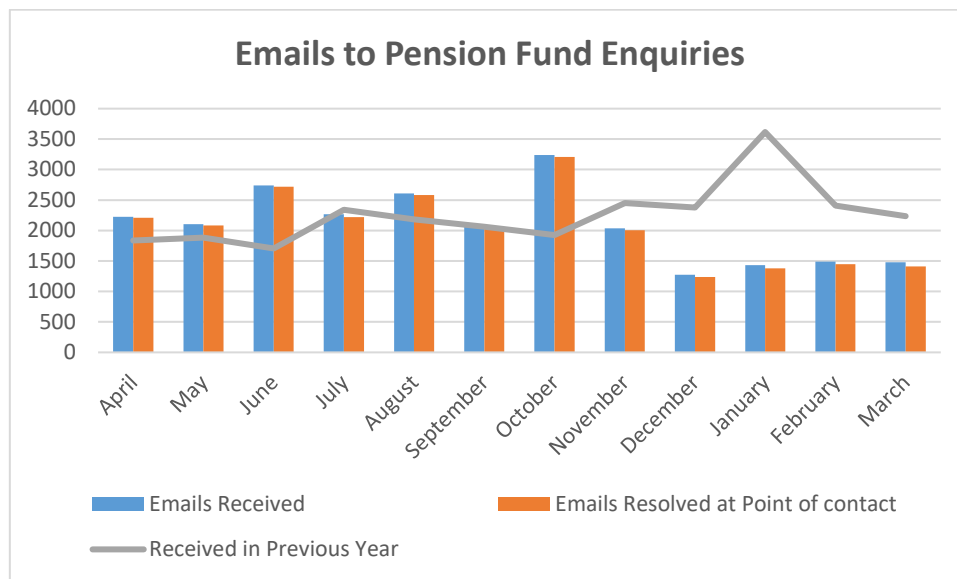
	January	February	March
Calls Offered	8106	7325	7140
Calls Answered	6991	6120	6193
Calls Offered in Previous Year	6885	6728	7476
Answer Rate (Target 85%)	86.24%	83.55%	86.74%



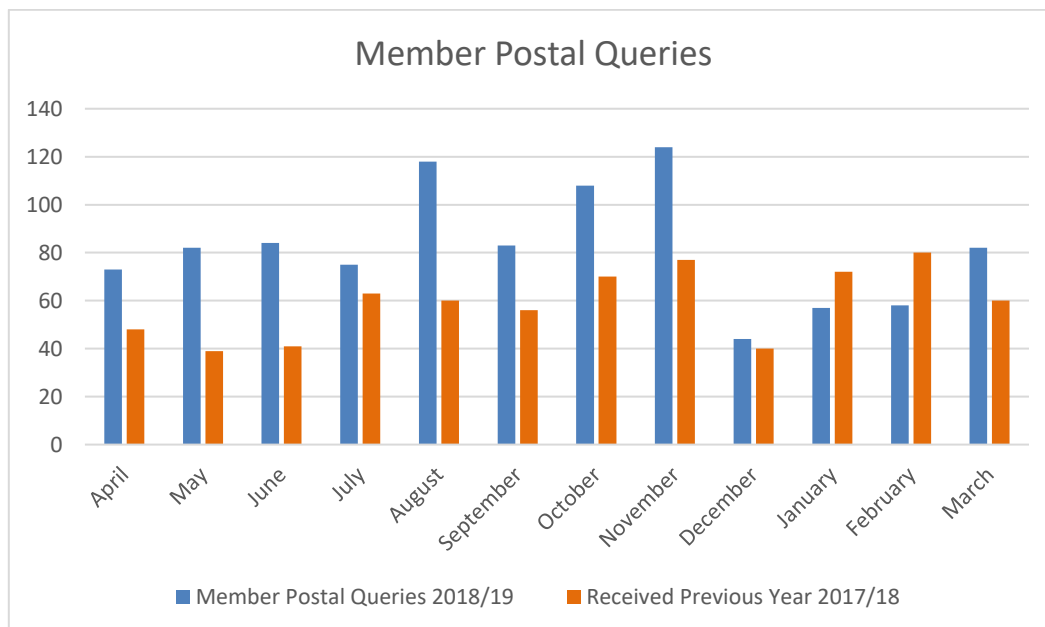
	'Ask a question' Queries Received (2018/19)	Received in Previous Year (2017/18)
January	497	175
February	440	140
March	455	123

Appendix E: Customer Service Statistics

1 January 2019- 31 March 2019



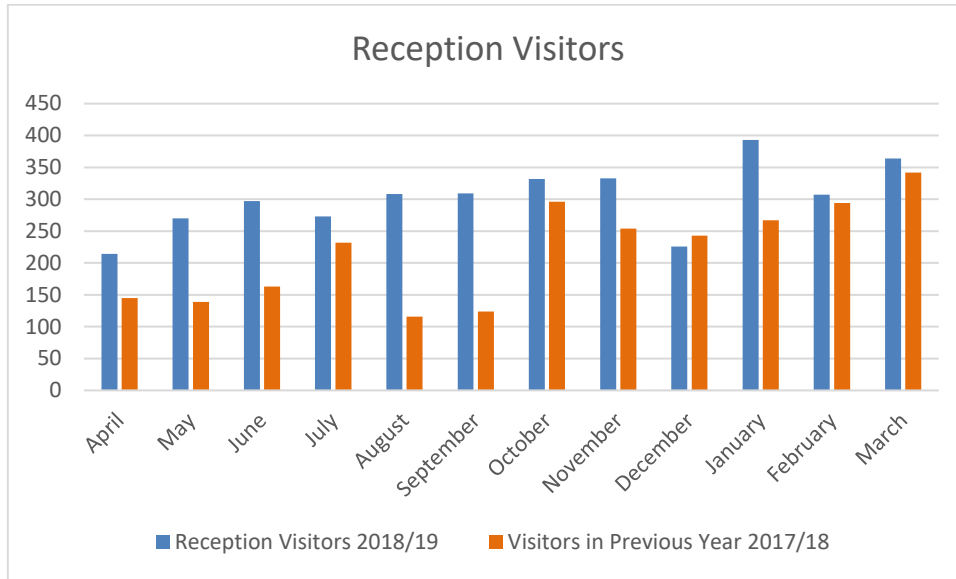
	January	February	March
Emails Received	1432	1491	1479
Emails Resolved at Point of Contact	1378	1447	1410
Emails Received in Previous Year	3616	2410	2237
% of emails resolved at point of contact	96.23%	97.05%	95.33%



	Member Postal Queries (2018/19)	Received in Previous Year (2017/18)
January	57	72
February	58	80
March	82	60

Appendix E: Customer Service Statistics

1 January 2019- 31 March 2019



	January	February	March
Visitors to Reception	393	307	364
Visitors in Previous Year	267	294	342

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Appendix F – Approved Admission Agreements

Employer name	Guarantee Status (Agreement)	No. of employees (Scheme members) Agreement type	Status
Aspens-Services Ltd (Create Partnership)	Create Partnership Trust	4 (Unknown) Closed	Approved
Aspens-Services Ltd (Hargate Primary School)	Sandwell MBC	5 (5) Closed	Approved
Aspens-Services Ltd (Yardley School)	Yardley School	3 (3) Closed	Approved
Birmingham and Solihull Mental Health Foundation Trust	Birmingham CC	4 (4) Closed	Approved
Catering Academy Ltd (Ernesford Grange)	Sidney Stringer Academy Trust	1 (1) Closed	Approved
Churchill Contract Services Ltd (Ormiston Shelfield Community Academy)	Ormiston Academies Trust	6 (6) Closed	Approved
Computer Systems in Education Ltd (Fairfax MAT)	Fairfax MAT	1 (1) Closed	Approved
Genie Cleaning Services Ltd (OJEU Cluster)	Birmingham CC	Unknown (Unknown) Closed	Approved
Genie Cleaning Services Ltd (RFP Cluster)	Birmingham CC	Unknown (Unknown) Closed	Approved
Mellors Catering Services (Wednesbury Learning Community Trust)	Wednesbury Learning Community Trust	16 (Unknown) Closed	Approved
Miquill Catering Ltd (Yardley Primary School)	Yardley School	13 (Unknown) Closed	Approved
Rising Stars Young People Services CIC	Birmingham CC	Unknown (Unknown) Closed	Approved

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 19 June 2019
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Report Title	Customer Engagement Update	
Originating service	Pension Services	
Accountable employee(s)	Simon Taylor	Head of Pensions
	Tel	01902 554276
	Email	Simon.taylor2@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.brothwood@wolverhampton.gov.uk

Recommendation for approval:

The Committee is recommended to approve:

1. The Communication Policy included at appendix A.

Recommendation for noting:

The Committee is asked to note:

1. The engagement activity and informed service development.

1.0 Purpose

- 1.1 To provide Committee with an update of the Fund's customer engagement activity from 1st January 2019 to 31st March 2019, in line with its Customer Engagement Strategy.

2.0 Background

- 2.1 One of the Fund's key objectives is to engage to improve outcomes for our customers. In line with this objective, the Fund has published, and keeps under review, a Customer Engagement Strategy, to review satisfaction and help inform improvements to its pension services.
- 2.2 This report summarises engagement activity and the service development this is driving.

3.0 Engagement within this reporting period

- 3.1 The Fund has undertaken a wide range of proactive engagement with our customers and other stakeholders during the period 1st January 2019 to 31st March 2019.
- 3.2 In total, the Member Services team has assisted **1,780** members with pension related information. This engagement includes presentations delivered to **658** attendees held at a variety of different employers, including the district councils, universities, school and other admitted bodies.
- 3.3 The feedback from these presentations was **50%** of the members rated them as excellent, **40%** as very good, **9%** as good and **1%** as satisfactory. Further detail on the feedback can be found in appendix A with a summary of the scope of these events covered in appendix B.
- 3.4 During this reporting period the team provided **8** satellite support events to hard to reach members who may not normally be able to access our services due to the nature of their work. These events were delivered across **6** locations in Birmingham, Dudley, Halesowen, Solihull, West Bromwich and Wolverhampton to **89** scheme members. These have included leisure services staff, learning and physical disability support staff, PCSO's and Police support staff, special school staff and Social Workers within Children's Services. Please see appendix B.
- 3.5 Further support has also been provided to **700** members on an individual basis either through drop in sessions or scheduled one-to-one support sessions.
- 3.6 Scheduled one-to-one support consists of a "Health Check" of a member record/s, providing a snap shot of the value of their benefits to date and a projection at normal retirement age. We discuss any other concerns members may have and early retirement options they may wish to explore.

3.7 The Fund works in partnership with local HR teams at our larger employers upon request to educate new starters of the benefits of the LGPS and provide support to members who are thinking about retirement. During this quarter we have delivered **6** LGPS induction sessions which were delivered to **79** attendees, and **3** pre-retirement events which were attended by **27** members

3.8 During this reporting period, the Member Services Team piloted the new “Pre-Retirement Planning Workshop”. These workshops not only provide an overview of the LGPS, but also touch on state pension benefits, tax, signposting and provide members an opportunity to calculate and understand their own pension benefits. In January, the Pre-Retirement Planning Workshop pilot was offered to members at the City of Wolverhampton Council. Due to the success of the event this will now be rolled out across the region (this is covered in 11.2 of this report)

4.0 “My Pensions” portal promotion

4.1 To contribute towards the drive to promote the new member pensions portal, in the last quarter, the team provided a bespoke pensions portal presentation and drop-in sessions at one of the Fund’s largest educational establishments - Calthorpe Academy, which assisted **72** members register and navigate for pensions portal and take control of their benefits online.

4.2 There are now over **75,000** members registered and accessing information about their benefits using the pension-portal facility. During this period this increased by **722** portal registrations.

5.0 Employer Coaching

5.1 One of the Fund’s objectives is to partner for success, of which a key element are our customers. The Fund’s Pensions Administration Strategy (PAS) sets out the roles and responsibilities for both the Fund and our participating employers. In order to provide employers with the required support and guidance to help them meet these responsibilities, the Fund provides employer coaching sessions, with a planned schedule of events set out for each calendar year.

5.2 Two sessions were held during the reporting period, on 16th January 2019 (11 attendees) and 6th March 2019 (11 attendees) with the later session being bespoke to academies. Feedback was positive with all attendees rating the session as good or excellent.

5.3 Feedback gained from the sessions is helping to structure future bespoke and ‘short-bite’ sessions planned either in the format of face-to-face sessions or as part of the supporting webinar programme.

5.4 The inaugural webinar demonstration took place during February 2019 with volunteers from the Fund’s Employer Peer Group. The introduction of the webinars is designed to supplement the Funds coaching programme and an additional demonstration will be taking place during our May 2019 Employer Peer Group session comprising of several new attendees for the 2019/20 cycle.

6.0 Employer Peer group

- 6.1 Aligned to the Fund's objective to partner for success, the Fund holds an Employer Peer Group every three months.
- 6.2 The Employer Peer Group provides the Fund with valuable feedback and allows the Fund an opportunity to trial new initiatives, procedures and ideas, before implementation, to assist both member processing efficiencies and employer performance.
- 6.3 At the most recent Employer Peer Group meeting held on 6th February 2019, issues covered included:
- Update on the Fund's Employer Hub development programme
 - Current ongoing consultations discussed, including:
 - Fair Deal
 - The Funds Customer Engagement Strategy
 - Provisional quote guidance document drafted by Member services following employer feedback
 - Monthly Submission process review
 - Webinar Demonstration
 - 2019 Actuarial Valuation
- 6.4 A number of suggestions were put forward and feedback given by the group with respect to the above which will be considered by the Fund in future developments of these items.
- 6.5 This was the final meeting of the 2018/19 Peer Group and subsequently invites were extended to the whole employer base in advance of the new cycle due to commence from May 2019. A number of participating employers expressed an interest in being part of the group and supporting the diverse mix of employer representation on the group. The 2019/20 group is made up as follows:

District Council	4
Academy (MAT)	2
CAB	1
University	2
TAB	1
College	1
Designated Body	1
Other Scheduled Body	1

7.0 Liaison with employers ahead of 2019 Annual Benefits Statements

- 7.1 Employer Services is working to ensure all final 2018/19 monthly data files are received from employers in order that preparation for the 2019 ABS may commence.

7.2 In addition, end of year Financial Statements have been requested from all employers as an annual certification of the contributions paid to the Fund and in line with the requirements set out in the Pensions Administration Strategy.

8.0 Overall Customer Satisfaction

8.1 Employer Survey January 2019

8.1.1 Results from the 2019 bi-annual Employer Survey show that, 79% of employers responding are satisfied/above satisfied with the overall service provided to them by the Fund. Responses were received from 71 employers.

8.1.2 The key theme of the survey was around the engagement methods employed by the Fund, with particular focus on informing preparation for the 2019 Actuarial Valuation. A number of suggestions were made by respondents with respect to the assistance they would like to receive in relation to the valuation process. These suggestions will be used to structure the content of the Funds initial valuation consultation meetings and the format and frequency of future engagement sessions over the rest of the coming year and included, in summary, the following:

- More upfront and explicit signposting where employer action is required
- Timely assistance with any questions arising from valuation
- Regular briefings and updates in order to understand progress and key milestones
- Use of webinars to provide updates to employers with respect to the process and expectations.

8.1.3 When asked which support mechanisms employers would prefer to see further developments made, the highest-ranking item was the Employer Web Portal, followed by the creation of more guidance documents/videos and an improved ability to self-serve through the Fund's website. These are all items which are on the Fund's service development plan and will be rolled out over the next 12-18 months. The suggestions and comments received through the survey will be used to assist with the prioritisation of development activity when setting future priorities and objectives.

8.2 Customer Satisfaction Surveys

8.2.1 The rolling online customer survey available through the Fund's website continues to provide ongoing feedback and early notice of any common issues or concerns.

8.2.2 Alongside this, the Fund encourages feedback using a range of different channels, such as through surveys issued following member, customer and trustee events. Within all of our external surveys, two 'core' questions are included which measure overall customer satisfaction. The overall satisfaction over this period has been noted as 99%.

- 8.2.3 A pilot 'post retirement' survey was issued during this quarter which gave us some valuable insight into our customer's experience. To enable us to collate more data and have a continuous stream of feedback, we will be launching the survey as a monthly feature. We are also going to pilot a 'deferred retirement' survey within the next quarter.
- 8.2.4 Where customer feedback highlights an improvement area, these improvements, which have related to a range of system and process change, together with points for further employee training, are being investigated and monitored. We are continuing to expand and promote the surveys available and all improvement ideas are stored within our Customer Feedback Log for analysis and exploration.
- 8.2.5 As a result of the feedback received so far, we have been able to improve several outgoing letters and create/modify Fund web pages to help members self-serve. For example, in this quarter, we have been able to create a new 'bereavement' page to help support our member's personal representatives. We have also added a link to this page in our initial acknowledgement letter, so that they have access to further information on the process from the outset.
- 8.2.6 Some improvements require software development and will be explored through the Fund's Digital Transformation Programme. These improvements include:
- A review of the Pensions Portal re-set credential procedures
 - A review of the Secure Messaging process and how these messages are displayed to members.
 - Automated Email Import

9.0 Communications and Publications

- 9.1 During the reporting period, the Fund has compiled and provided a number of new and revised publications. The communications have been produced in line with the Fund's objective of engaging to improve outcomes for our customers through provision of key guidance, messaging and support. The Fund endeavours to ensure it is at the forefront of integrating the latest industry practice and guidance into its communications, whilst also tailoring the information it provides based on feedback from its customers, and, where possible, introduces new publications based on their requirements
- 9.2 Members continue to view the Funds video shorts which are available through the website. The videos assist members with registration for pensions portal, provide an overview of the LGPS, promote the 50:50 section and explain the annual benefit statements. Since the videos were published **3,015** members have accessed and viewed the videos. This is a **27%** increase since the March customer engagement update.
- 9.3 Following feedback from the employer meeting held in September 2018, a supporting document has been drafted to help with the explaining of retirement statements by employers to members. Guidance notes have now been produced for a variety of circumstances under which a member may leave. These are now available on the Fund's website, hyperlinked on the member pensions portal and can also be included as part of the employers' toolkit.

- 9.4 In March 2019 the Fund issued its annual Pension Smart newsletter to all our pensioner members of the scheme, this was issued via post along with P60s in March and April to **c90,000** members.
- 9.5 The 2019 Spring edition of the Employer brief was circulated to all employers during March and contained articles and important information on the following topical issues and Industry updates:
- Internal Dispute Resolution Procedure
 - 2019 Actuarial valuation
 - Cost management following the SAB review
 - New fair deal Consultation
 - Detailed instructions regarding notifying the Fund of a scheme leaver
 - Upcoming employer events

The Spring brief included the usual features around process reminders, warnings and the promotion of Fund support and guidance available to employers. A copy can be found on the Fund's website.

10.0 Pension Roadshows

- 10.1 As part of the Fund's communication plan, the Fund provides face to face support on the pension roadshow vehicle. This enables the Fund to actively engage with its membership across the West Midlands, increasing awareness of the LGPS and its benefits and promoting the Fund's member pensions portal expanding the scope for self-service. The Fund also receives valuable feedback from these events to help shape future service delivery.
- 10.2 During this reporting period the team delivered the annual Roadshows at Depot locations across the West Midlands region. The team delivered **9** roadshow events which saw **422** members come on board the bus and seek support with their pension benefits. This is a 16% increase in attendance when compared to last year.

11.0 Support and communication on the horizon over the next quarter

- 11.1 The Fund has or will be providing various support and communication to its customers and stakeholders in the near future, which will be covered in future Committee reports. This range of activity extends from working with LGA and other funds, the development of new methods of communication to engage with our membership and upcoming support which is due to be delivered to members.
- 11.2 Following on from point 3.9 in this report, the Member Service Team is rolling out the new pre-retirement planning workshop across the region having already secured booking with Dudley MBC, South & City College and a quarterly commitment for the workshop from Walsall MBC. We are also currently working with **9** other employers to roll this support out.

- 11.3 The Annual Benefits Statement for Deferred members has been designed for 2019 and also contains important updates regarding new regulations which came into effect from January 2019. The statement is due to go live on the Fund member pensions portal on the 3 June. Last year the Fund notified members that their statement was on-line through a bulk email and due to the success of this in 2018, we will be emailing **c36,000** members again between 3 June and 6 June 2019.
- 11.4 The LGA has secured a budget to create member videos which explains the LGPS for all LGPS Funds to use. The idea is the videos will promote various parts of the LGPS and increase member engagement with their benefit. The West Midlands Pension Fund is one of three LGPS Funds working with the LGA to procure a supplier to make the videos and work with them to design and commission them.
- 11.5 The programme of employer performance feedback will continue with particular focus on the remaining largest employers not yet seen during this calendar year. Invites have been extended to a further 3 employers for suggested discussion to take place prior to the end of quarter two. In addition, regular follow up calls have been requested with those employers seen during this reporting period
- 11.6 The Member Services Team is currently organising the annual FE College and Universities Pension Roadshow events across the region. These are due to be delivered between the 4th & 12th July 2019.
- 11.7 As part of the Funds 2019 Actuarial Valuation preparations, all employers are due to be issued with an electronic 'health check' document asking employers to check or confirm the following details:
- Accuracy of active member lists as at 31st March 2019 held by the Fund
 - Details of any casual employees (for help with reconciliation of monthly data)
 - Details of the contacts held for the organisation (and payroll provider if appropriate).
 - List of approved users currently registered as having access to an organisation via the Employer Web portal
- 11.8 The first session of the 2019/20 peer group will take place with a refreshed list of attendees which includes some previous group members together with some brand-new members. The first session will include a further demonstration of the planned webinar coaching programme for feedback and comments together with a number of other topical issues for the group to discuss
- 11.9 The Fund's commitment to participate in different channels of engagement to communicate with its employers and members continues. The roll out of webinars to both members and employers is now increasing in momentum and the target for full roll out during early summer is on track.

11.10 In planning for the 2019 actuarial valuation, the Fund will be running a series of multi-employer briefing sessions across the West Midlands area to discuss the actuarial valuation and ensure employers are fully equipped and informed in terms of what might be expected. The briefing sessions will allow employers to learn more about the funding strategy review, the process and how this review may impact on contribution requirements from April 2020. These sessions will cover the following areas:

- An overview of the 2019 valuation and how funding has developed since 2016.
- An update on how the Fund might reflect differing employer circumstances.
- How the Fund might assist employers to manage and mitigate the liability risks.
- Discuss the information the Fund will require to assess the employer's ability to support future contribution proposals.

More detail on these sessions, including scheduled dates, is contained within the 2019 actuarial valuation update report.

12.0 Customer Engagement Strategy

12.1 Following approval of the Customer Engagement Strategy at the last committee meeting, the document has now been made live via the Funds website together with the Customer Engagement plan.

12.2 Events that have taken place will be tracked quarterly against the planned events detailed in the Customer Engagement Plan and submitted for review.

13.0 Communication Policy

13.1 Aligned to the revised Customer Engagement Strategy and in line with the statutory obligations set out in the LGPS Regulations, the Fund has reviewed the Communication Policy. This policy will remain subject to a process of continued review against the Fund's objectives and deliverables set out in the Customer Engagement Strategy. Committee is asked to approve the revised version, as provided at appendix C.

14.0 Mid-Year Review 2019

14.1 Invites have now been issued on the 13 May 2019 to all participating employers, union representatives and pensions committee and Local Pensions Board members regarding the Funds Mid-year review to be held at the Hayward Suite, Molineux Stadium on 3rd July 2019.

15.0 Financial implications

15.1 The report contains no direct financial implications

16.0 Legal implications

16.1 The report contains no direct legal implications.

17.0 Equalities implications

17.1 The report contains no direct equalities implications.

18.0 Environmental implications

18.1 The report contains no direct environmental implications.

19.0 Human resources implications

19.1 This report contains no direct human resources implications.

20.0 Corporate landlord implications

20.1 The report contains no direct corporate landlord implications.

21.0 Schedule of background papers

21.1 None.

22.0 Schedule of Appendixes

22.1 Appendix A: Member Services feedback

22.2 Appendix B: Member Services events covered 1 January 2019 – 31 March 2019.

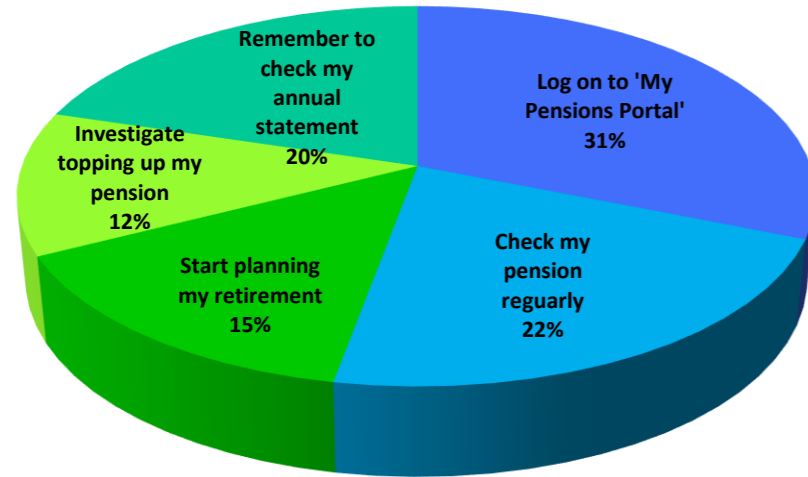
22.3 Appendix C: Communication Policy

Appendix A- Member Services Team – Presentation Feedback January - March 2019

Members feedback on the following areas

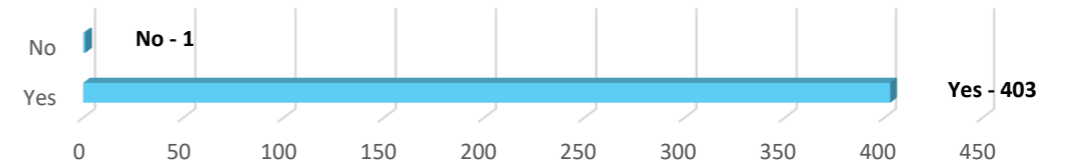
404 – Members surveyed January - March 2019

What are you going to do following this presentation?

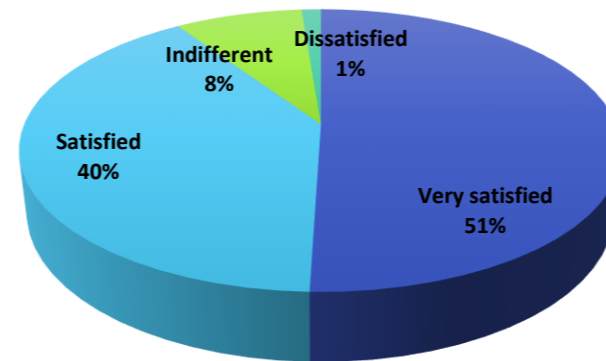


- Log on to 'My Pensions Portal'
- Check my pension regularly
- Start planning my retirement
- Investigate topping up my pension
- Remember to check my annual statement

Would you recommend a colleague to attend this type of event?

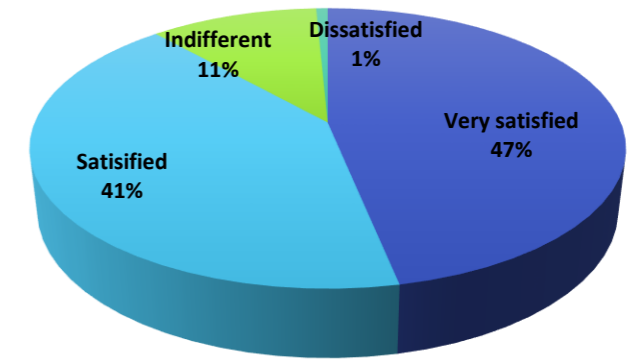


How satisfied are you with your most recent interaction with WMPF?



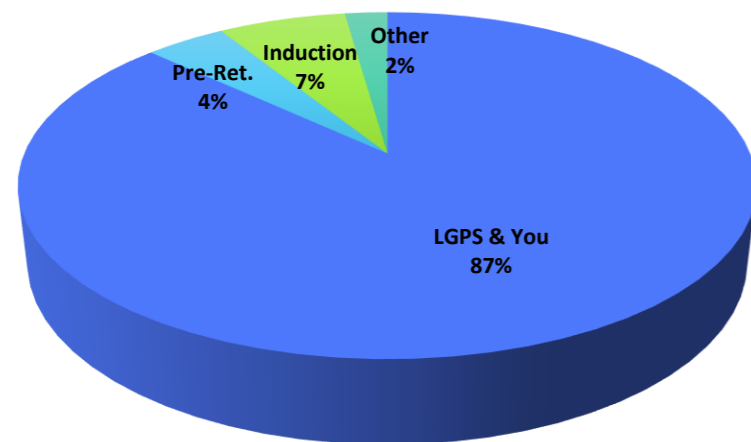
- Very satisfied
- Satisfied
- Indifferent
- Dissatisfied
- Very dissatisfied

How satisfied are you with the overall service that you have received from WMPF?



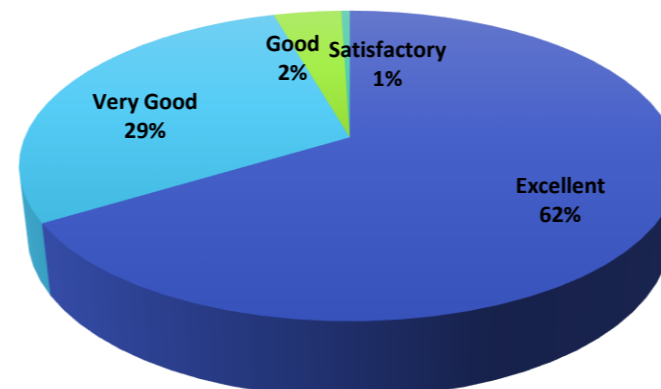
- Very satisfied
- Satisfied
- Indifferent
- Dissatisfied
- Very dissatisfied

Which presentation did you attend?



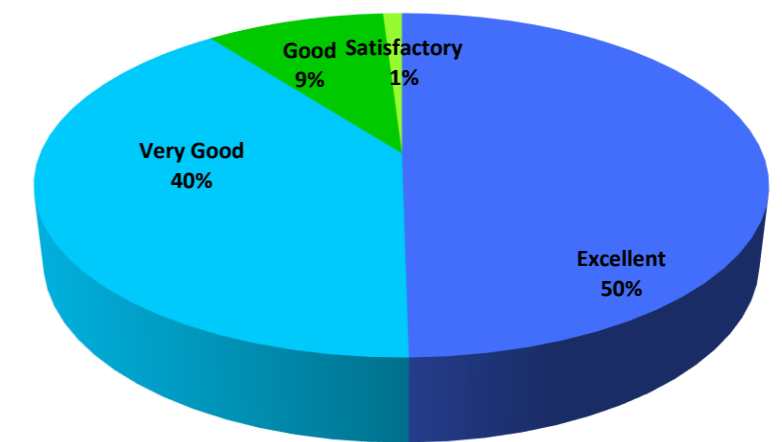
- LGPS & You
- Pre-Ret.
- Induction
- Other

Presenters knowledge and presentation skills?



- Excellent
- Very Good
- Good
- Satisfactory
- Poor

Presentation rating



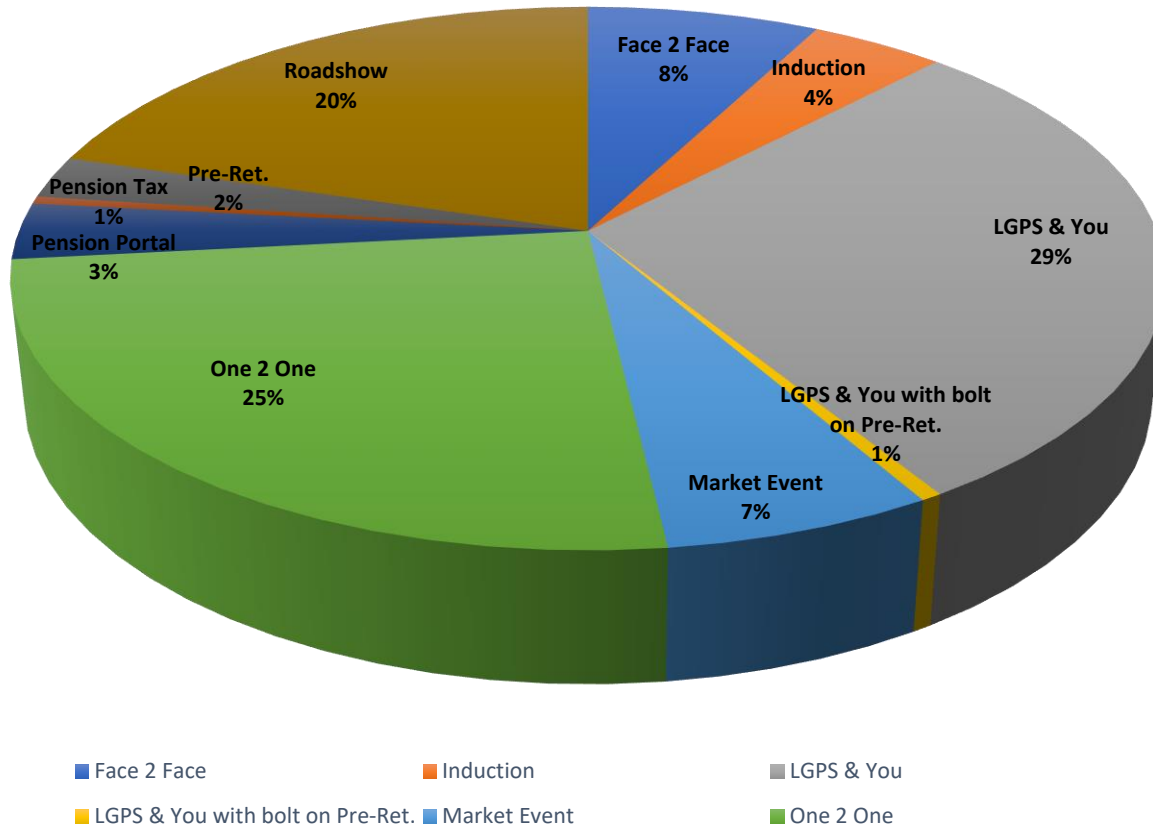
- Excellent
- Very Good
- Good
- Satisfactory
- Poor

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Appendix B- Member Services Team Stats - Events attended 1st January 2019 to 31st March 2019



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Event Type	Attendance
Face 2 Face	137
Induction	79
LGPS & You	517
LGPS & You with bolt on Pre-Ret.	9
Market Event	115
One 2 One	448
Pension Portal	60
Pension Tax	8
Pre-Ret.	45
Roadshow	362
Total	1780

Member Services Team Stats - Events attended

1st January 2019 to 31st March 2019

Jan-19

Date	Venue	Event Type	Attendance
04/01/2019	Birmingham Children's Trust	LGPS & You	12
04/01/2019	Birmingham Children's Trust	One 2 One	9
07/01/2019	Fairfax School	LGPS & You	43
07/01/2019	Fairfax School	One 2 One	12
07/01/2019	Sandwell College	Market Event	43
08/01/2019	Kingswood Academy Trust	One 2 One	5
10/01/2019	Dudley MBC - Queens Cross Network	One 2 One	13
15/01/2019	West Midlands Pension Fund	Pre-Ret.	15
16/01/2019	Coventry University	LGPS & You X3	46
16/01/2019	Coventry University	Face 2 Face	10
16/01/2019	City of Wolverhampton Council	Induction	17
16/01/2019	City of Wolverhampton Council	Face 2 Face	4
17/01/2019	Halesbury Special School	One 2 One	4
21/01/2019	Sandwell Leisure Trust - Haden Hill Leisure Centre	One 2 One	6
22/01/2019	Waverley School	LGPS & You	29
22/01/2019	Waverley School	Face 2 Face	7
22/01/2019	Woodfield School (Hawthorne Lane Campus)	One 2 One	14
22/01/2019	Solihull Police Station	One 2 One	8
23/01/2019	Sandwell Leisure Trust (Hadley Stadium)	One 2 One	5
23/01/2019	Walsall MBC	Induction	5
24/01/2019	Dudley College	LGPS & You	37
24/01/2019	Dudley College	One 2 One	10
25/01/2019	Templars School	One 2 One	10
25/01/2019	Foxford School	LGPS & You	47
25/01/2019	Foxford School	Face 2 Face	8
28/01/2019	The Corley Centre	LGPS & You	21
28/01/2019	The Corley Centre	One 2 One	6
28/01/2019	St. Paul's C of E Academy	LGPS & You	47
28/01/2019	St. Paul's C of E Academy	Face 2 Face	8
29/01/2019	Woodfield School (Stoneleigh Road Campus)	One 2 One	6
29/01/2019	University College Birmingham	One 2 One	9
30/01/2019	Langley Swimming Baths	One 2 One	7
30/01/2019	Portway Leisure Centre	One 2 One	5
30/01/2019	Halesowen College	One 2 One	8
31/01/2019	Birmingham Children's Trust	LGPS & You	64
31/01/2019	Birmingham Children's Trust	Face 2 Face	21
31/01/2019	Tipton Leisure Centre	One 2 One	4
Total			625

Member Services Team Stats - Events attended

1st January 2019 to 31st March 2019

Feb-19

Date	Venue	Event Type	Attendance
04/02/2019	Walsall College	Pension Tax	8
04/02/2019	Walsall College	Face 2 Face	4
04/02/2019	Mander House - (Appt at reception)	One 2 One	1
05/02/2019	Woodfield School - Coventry LEA	One 2 One	12
05/02/2019	Whitmore Rean's Childrens Centre	One 2 One	16
06/02/2019	South & City College (Bordesley Green Campus)	One 2 One	17
06/02/2019	University College Birmingham	One 2 One	8
07/02/2019	St Martin De Porress Primary School	LGPS & You with bolt on Pre-Ret.	9
07/02/2019	St Martin De Porress Primary School	Face 2 Face	2
07/02/2019	Christ the King Catholic School	One 2 One	14
07/02/2019	Solihull Police Station	One 2 One	7
08/02/2019	South & City College (Hall Green Campus)	One 2 One	10
08/02/2019	Bloxwich Academy	One 2 One	6
11/02/2019	Whitefriars	One 2 One	9
12/02/2019	South & City College (Bournville Campus)	One 2 One	14
12/02/2019	Bushbury Lane Academy	LGPS & You	12
12/02/2019	Bushbury Lane Academy	Face 2 Face	4
13/02/2019	City of Wolverhampton Council	Induction	20
13/02/2019	SIPS Education	One 2 One	13
13/02/2019	Whitefriars	One 2 One	9
14/02/2019	South & City College (Digbeth Campus)	One 2 One	14
14/02/2019	LGPS Central	LGPS & You	5
14/02/2019	LGPS Central	Face 2 Face	3
15/02/2019	Whitefriars	One 2 One	9
18/02/2019	Mander House - (Appt at reception)	One 2 One	1
19/02/2019	Bloomsbury LMO	One 2 One	12
20/02/2019	SIPS Education	One 2 One	7
20/02/2019	Halesowen Leisure Centre	One 2 One	12
22/02/2019	Mander House - (Appt at reception)	One 2 One	1
25/02/2019	Earlsdon Primary School	One 2 One	8
26/02/2019	St Johns C of E Primary	LGPS & You	10
26/02/2019	St Johns C of E Primary	Face 2 Face	3
26/02/2019	Queen's Cross Network - Dudley MBC	One 2 One	14
27/02/2019	Walsall MBC	Induction	11
27/02/2019	Walsall MBC	Face 2 Face	6
27/02/2019	Bartley Green School	LGPS & You	11
28/02/2019	Calthorpe Academy	Pension Portal	60
28/02/2019	Calthorpe Academy	Face 2 Face	11
Total			393

Member Services Team Stats - Events attended

1st January 2019 to 31st March 2019

Mar-19

Date	Venue	Event Type	Attendance
01/03/2019	Coventry University	LGPS & You X3	46
01/03/2019	Coventry University	Face 2 Face	15
04/03/2019	Alderbrook School	One 2 One	12
04/03/2019	Mander House (Appt at reception)	One 2 One	1
05/03/2019	The Oval School	One 2 One	12
06/03/2019	Abbey Primary School	LGPS & You	14
07/03/2019	Mander House	Pre-Ret.	6
08/03/2019	Pearl Hyde Community Primary School	One 2 One	8
08/03/2019	Coventry City Council	Pre-Ret.	12
08/03/2019	Coventry City Council	Face 2 Face	4
11/03/2019	Black Country Consortium	LGPS & You	12
11/03/2019	Black Country Consortium	One 2 One	9
11/03/2019	Greenwood Academy	LGPS & You	18
11/03/2019	Greenwood Academy	Face 2 Face	7
12/03/2019	South & City College (Handsworth Campus)	One 2 One	11
12/03/2019	James Brindley School	LGPS & You	19
12/03/2019	James Brindley School	Face 2 Face	7
12/03/2019	West Bromwich Police Station	One 2 One	14
13/03/2019	Blakesley Hall Primary School	One 2 One	12
15/03/2019	South & City College (Bournville Campus)	One 2 One	14
15/03/2019	Omiston Sheffield Academy	LGPS & You	24
15/03/2019	Ormiston Sheffield Academy	Pre-Ret.	12
15/03/2019	Ormiston Sheffield Academy	Face 2 Face	8
18/03/2019	Birmingham Metropolitan College (Matthew Boulton)	Market Event	16
18/03/2019	Birmingham Metropolitan College (Stourbridge)	Market Event	20
19/03/2019	Redfern Road Depot	Roadshow	42
20/03/2019	Walsall Depot	Roadshow	45
21/03/2019	The Leys Depot	Roadshow	60
22/03/2019	Blowers Green Depot	Roadshow	13
25/03/2019	Montague Street Depot	Roadshow	35
26/03/2019	Lifford Lane	Roadshow	36
27/03/2019	Birmingham Metropolitan College (James Watt)	Market Event	13
27/03/2019	Birmingham Metropolitan College (Sutton Coldfield)	Market Event	23
27/03/2019	Walsall MBC	Induction	13
27/03/2019	Walsall MBC	Face 2 Face	5
28/03/2019	Perry Barr Depot	Roadshow	77
28/03/2019	City of Wolverhampton Council	Induction	13
29/03/2019	Lister Road Depot	Roadshow	54
Total			762



COMMUNICATIONS POLICY STATEMENT MAY 2019



West Midlands Pension Fund

BACKGROUND

The West Midlands Pension Fund (“The Fund”) is one of the UK’s largest pension funds managing and administering the pension interests of over 320,000 members and more than 650 scheme employers as at 31 March 2019. It is administered by the City of Wolverhampton Council on behalf of all West Midlands local authority bodies.

Our core mission is to ensure that our members receive their pension benefits when they fall due, contributing together for our members’ future. Through increasing dialogue with our customers on the Local Government Pension Scheme (LGPS), its membership and benefits, the West Midlands Pension Fund carries out its role as administering authority in partnership with employers playing a key role in enabling employers to meet their statutory obligations assisting members’ planning their retirement.

This Communications Policy Statement outlines how the Fund will communicate with its members and employers ensuring information is provided in a clear and concise way, readily available to our customers when they need it.

In April 2006, the Local Government Pension Scheme regulations were amended to state that each pension fund administering authority is required to prepare, publish and review regularly its communications policy statement, the regulations outline what funds are required to publish.

This document outlines the Fund’s communications policy in line with that requirement and covers the following categories in our regular communication activity:

- 1 Communicating with scheme members;
- 2 Member self-service (the Pensions Portal);
- 3 Communicating with members’ representatives;
- 4 Communicating with prospective members;
- 5 Communicating with employing authorities;
- 6 Customer engagement strategy.

1 COMMUNICATING WITH SCHEME MEMBERS

The Fund has adopted a Customer Engagement Strategy setting out the opportunities for communication with members and employers, as well as outlining opportunities for individuals to engage directly with the Fund at various stages of the pension lifecycle.

While the Fund can choose its engagement opportunities, there are a number of statutory communications which the Fund is required to provide and publish to its members. This strategy sets out how the Fund responds to that statutory requirement of communicating with members.

Annual Benefit Statement

An annual benefit statement is made available online for all active and deferred members who are contributing to the Fund or have not received payment of their deferred benefits at the previous financial year. These statements are made available through the Fund's pensions portal self-service facility. Benefit statements can be issued in paper form on written request.

If there is an instance where a benefit statement cannot be made available, we will notify members and their employers by letter, setting out the reason for the inability to produce a statement.

wmpfonline.com

The Fund maintains an extensive online resource at wmpfonline.com containing information about the scheme and the details about the current activities of the Fund. There are also links to other relevant partner organisations.

Scheme Literature

An extensive range of scheme literature is produced and updated by the Fund for all categories of member. Copies of scheme literature are made available at the Fund's website, wmpfonline.com with direct links to the national LGPS member site www.lgpsmember.org

Telephone Helpline: 0300 111 1665

A dedicated low-call rate telephone customer service telephone line is provided for scheme members and is publicised in all outgoing communications.

Pension Roadshows

Throughout the year there may be changes to scheme benefits or the regulations which determine scheme benefits which are legally required to be communicated to members. This is known as 'disclosure'.

The Fund complies with its statutory duty to provide details and information to members that affects the calculation and/or their entitlement to access their pension benefits through publication of documents, information leaflets and where necessary, direct mailings to members affected by the changes.

Pensioner Pay Advice Slip and Annual Newsletter

All Fund members in receipt of a pension receive a combined pay advice slip and P60 in April of each year. In the months of May through to March, we will only send a pay advice slip when there is a variance of £10 in their gross or net payment. For scheme pensioners that are paid quarterly and annually, the Fund will issue a pay advice every time a payment is made (June, September, December and March).

Scheme pensioners can also register to use the Fund's pensions portal where pay advice information can be viewed electronically and printed at any time following the payment date.

Mailed with the April combined pay advice slip/P60 is an annual newsletter providing updates on the Fund and its performance.

Members are still able to receive monthly and hard copy payslips by writing into the Fund to request copies.

2 MEMBER SELF-SERVICE (THE PENSIONS PORTAL)

An online portal gives members secure access to their LGPS records.

The facility provides members with the opportunity to update their personal details, ask questions about their benefits, view annual benefit statements and run pension estimate calculations as well as change nominations. Members in receipt of a pension are also able to view and change UK bank details via the portal.

3 COMMUNICATING WITH MEMBERS' REPRESENTATIVES

Materials available to members are also available on request to their representatives or through wmpfonline.com

In compliance with the data protection laws, the Fund is unable to communicate with family members unless authority has been received from the member. The Fund is also unable to communicate with third parties such as financial advisors or solicitors with express consent. For more information on third party access to information and how the Fund manages data in line with data protection, please visit www.wmpfonline.com/dataprotection

4 COMMUNICATING WITH PROSPECTIVE MEMBERS

Scheme Booklet and Website

Upon appointment with their employer, all prospective scheme members will be provided with a link to the Fund's website where they can access scheme booklets. The website also provides information to help members make an informed decision about contributing to the LGPS, the 50:50 scheme and how to opt out of the scheme.

Corporate Induction Courses

Fund officers will attend employer induction events to present to prospective scheme members the benefits of being a member of the LGPS.

Trade Unions

We work with the trade unions to ensure the scheme is understood by all interested parties. Training days for branch officers can be provided upon request, and the Fund ensures that all pension-related issues are communicated effectively with the trade unions through their representative on the Pensions Committee and Local Pensions Board.

5 COMMUNICATING WITH SCHEME EMPLOYERS E-NEWSLETTER

e-Newsletter

An electronic newsletter, entitled Employer's Briefing Note is issued on a bi-monthly basis to all employers. This is used to communicate the activities of the Fund and inform of any regulatory changes which may impact on the employer's function or their members' pension benefits.

wmpfonline.com and Employer Hub

The Fund maintains a dedicated area of its website for scheme employers containing news, learning materials and other electronic resources.

Each employer can request to join the Fund's employer hub. This allows them secure access to the membership details of their current employees. The hub provides employers with the ability to make changes to member records including working hours and personal details. The portal also provides the facility to calculate early retirement estimates and any associated early retirement costs.

Dedicated Telephone Helpline: 0300 111 6516

A dedicated low-call rate employer customer service line is provided for scheme employers. This allows the Fund to respond to employer generated telephone calls at peak times.

Annual General Meeting and Mid-Year Review for Employers

The Fund invites each employer to our annual general meeting each winter. This event is used to communicate strategic issues, performance, legislation changes and triennial valuation matters. In addition to this, the Fund also holds a mid-year employer event each summer where employers are kept up to date with important issues through presentations and roundtable discussions.

Employer Peer Group

A group consisting of a cross-section of Fund employers meet quarterly to provide feedback on the communication initiatives planned by the Fund for fellow employers.

6 PROSPECTIVE EMPLOYERS

The Fund's Employer Services team works with new and prospective employers to help their understanding of their obligations under the LGPS Regulations. The team liaise with new employers to produce the necessary admission agreements providing confirmation of their duties as a new scheme employer through coaching sessions and 1-2-1 engagement via the employer helpline.

7 CUSTOMER ENGAGEMENT STRATEGY

In line with the Fund's objectives, the Customer Engagement Strategy plays a key role in ensuring the Fund drives continuous improvement and develops working practices, systems and process which are informed and prioritised according to the needs of our customer base.

We actively engage with our customers to keep them informed about the scheme, the performance of the Fund in the delivery of its services, ensuring these meet both the legal and regulatory duty of scheme administration as set out in The Pension Regulator's Code of Practice, and the Fund's own objectives for service development.

Our success is dependent on building and maintaining good working relationships with our employers and scheme members and this strategy aims to ensure customer focus is embedded in Fund operations and exhibited in our behaviours.

Our strategy outlines:

- a) Our aims and objectives
- b) our values and behaviours
- c) Our customers and stakeholders
- d) How our customers can engage with the Fund

Our Customer Engagement Strategy is updated annually and is available from wmpfonline.com/corporateinfo

8 CUSTOMER FEEDBACK POLICY

Customer Feedback

When seeking feedback, the Fund encourages contact through every available medium and will address any comments, compliments or complaints received in any form.

Contact may be made through our customer helpline, verbally on the phone, by letter, email or through feedback forms from one of our events or roadshows.

We also host a feedback form on our website: wmpfonline.com

Exceptions

While the Fund will always try to address any contact received from customers, there may be occasions where we will not be able to deal with the query under this process, either because it is covered by a different policy or because we are unable for reasons of business/commercial sensitivity.

The types of areas that we won't deal with through this process include the following:

- Staff/ex-staff complaints about employment matters including grievances or disciplinary hearings.
- Cases where legal action has started.
- Questions or comments that might lead to the release of commercially sensitive information (where this applies the customer will be informed this is the reason).
- Complaints about trustees or Pensions Board members.
- Where the matter is already being dealt with another way.

The Fund will offer support and assistance to anyone wanting to provide feedback on our services and where it is not deemed appropriate to deal with the feedback under this policy; we will try to assist by directing them to a more appropriate channel or procedure.

Process: Complaints

When dealing with complaints the Fund will always try to resolve a customer's comments in the first instance. However, we understand that sometimes customers may feel that the response they receive does not address their concerns.

Where we have made a mistake, we will always try to put it right and the way we might do this includes:

- making an apology;
- providing a full explanation of the circumstances that lead to the mistake;
- reviewing our procedures to ensure they are as effective as possible, achieving what they are designed to achieve;
- identifying training needs among staff.

What Will Happen to Your Complaint?

To ensure a fair and balanced approach, the Fund has created a three-stage complaints process, each of which progressing in escalation.

Under each process, the investigating officer is required to highlight any potential training needs or staff development opportunities feeding this back to the manager for the service area involved.

Informal Process

Where possible, the Fund will always deal with complaints at the first point of contact. Often customers contact the Fund via our helpline and it is the responsibility of our call handlers to ensure customers calling to complain are given every opportunity to explain their concerns. Call handlers will try and resolve the matter at this point reducing the need for further action.

There will be times when our call handlers are unable to resolve a query raised or the customer requires a further explanation. Where this occurs, the formal complaints process will begin and the matter will be formally logged as a complaint and passed to the Fund's Regulatory Compliance Team.

Stage One

Where a complaint cannot be resolved in the first instance or is received via email/letter/written correspondence, this will start the Stage One process which requires the person receiving the complaint to notify the Fund's Customer Services Manager. The complaint will be logged on the central system.

The complainant will receive an acknowledgment that their correspondence has been received and is being reviewed by the Fund's Customer Services Manager.

When investigating the complaint, the Fund officer will speak to staff members involved and, where necessary, review members' records.

A response will be issued within 15 days of receiving the complaint. Should this deadline need to be extended in order to provide the opportunity for further investigation, the complainant will be notified before the 15-day deadline.

Stage Two

Where a complaint cannot be resolved under Stage One or the complainant believes their concerns have not been adequately addressed, the matter will progress to Stage Two.

When a complaint progresses to Stage Two, it will be investigated by a senior manager at the Fund, usually the Head of Governance, who will review the complaint, review the response provided under Stage One and consider whether the issue has been addressed.

As with Stage One, an acknowledgment will be sent to the complainant confirming their complaint is being considered under the Stage Two process and a full response issued within 15 days.

Stage Three

Should a complaint not be resolved under Stage One or Stage Two, and a member or employer wants to progress further with their complaint, the matter will then progress to Stage Three where the complainant has a right to ask the Director of Pensions to review their complaint and the responses received.

There may be occasions where a complaint details an event or a circumstance that suggests something has happened that is so serious, it will progress automatically to the Stage Three process.

Under Stage Three, the Director will review all correspondence relating to the complaint and will conduct an investigation as to whether all appropriate action has been taken.

A response will be issued within 21 days.

Local Government Ombudsman

Stage Three is the final stage of the Fund's complaints process. Should a complainant remain unhappy with the response received, they do have a right of appeal to The Local Government Ombudsman.

The Local Government Ombudsman does not usually investigate or respond to complaints unless the in-house process has been exhausted. Complainants will therefore need to progress through all three stages of the Fund's complaints process before the Ombudsman will become involved.

The Ombudsman may be contacted at the address below:

Local Government Ombudsman

PO Box 4771

Coventry

CV4 0EH

Tel: 0300 061 0614

Website: www.lgo.org.uk

The Pension Regulator

The Public Service Pensions Act 2013 gave additional powers to The Pensions Regulator for the oversight of local government pension funds.

They may be contacted via their website at www.thepensionsregulator.gov.uk

Internal Dispute Resolution Process (IDRP)

The Fund is required to have in place an internal dispute resolution process for responding to complaints from members which relate to:

- a) their entitlement to join the scheme;
- b) benefit entitlement on leaving the scheme; and
- c) an employer deciding not to exercise a discretion to waive a reduction for deferred members over 55.

This is a different process to the Fund's feedback process, which is designed to deal with complaints concerning the Fund's failure to comply with its own adopted service standards.

IDRP is a complaint regarding a member's statutory right to pension benefits and more information can be found on the Fund's website wmpfonline.com

Officer Contacts**Customer Services Manager**

pensionfundenquiries@wolverhampton.gov.uk

Employer Services

wmpfemployerliaison@wolverhampton.gov.uk

West Midlands Pension Fund
PO Box 3948
Wolverhampton
WV1 1XP

pensionfundenquiries@wolverhampton.gov.uk

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