CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 25 March 2020

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

District Members
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Bally Singh (Coventry City Council)
Cllr Alan Taylor (Dudley Metropolitan Borough 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:

Contact Kirsty Tuffin
Tel/Email Tel:01902 552873 or kirsty.tuffin@wolverhampton.gov.uk
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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

Item No. *Title*

1 **Minutes** (Pages 5 - 12)
(a) Pensions Committee – 21 January 2020
[For approval]

2 **Service Plan 2020 - 2025 and Business Performance** (Pages 13 - 48)
[To receive the service plan 2020-2025 and business performance update].

3 **Budget 2020-2021** (Pages 49 - 58)
[To receive the budget for 2020-2021 and the financial plan to 2024-2025].

4 **Accounting Policies** (Pages 59 - 66)
[To approve the West Midlands Pension Fund accounting policies for the 2019-2020 financial year].

5 **External Audit Plan** (Pages 67 - 122)
[To receive the External Audit Plan 2020-2021].

6 **Investment Strategy Statement 2020** (Pages 123 - 154)
[To receive the Investment Strategy Statement 2020].

7 **2019 Actuarial Valuation** (Pages 155 - 230)
[To receive the 2019 Actuarial Valuation Update].

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Agenda Item No: 1

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** Minutes - 21 January 2020

Attendance

Members of the Pensions Committee

Cllr Stephen Simkins (Chair)
Cllr Milkinderpal Jaspal (Vice-Chair)
Cllr Harman Banger
Cllr Jasbinder Dehar
Cllr Keith Inston
Cllr Phil Page
Cllr John Reynolds
Cllr Paul Singh
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Rose Martin (Walsall Metropolitan Borough Council)
Cllr Bally Singh (Coventry City Council)
Cllr Councillor Alan Taylor (Dudley MBC)
Cllr Joe Tildesley (Solihull Metropolitan Borough Council)
Malcolm Cantello (Trade union Observer Representative)
Martin Clift (Trade Union Observer Representative)
Ian Smith (Trade Union Observer Representative)

Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Jill Davys	Assistant Director - Investments and Finance
Rachel Howe	Head of Governance and Corporate Services - West Midlands Pension Fund
Claire Nye	Director of Finance
Lauren Pote	Governance Support Officer
Hayley Reid	Regulatory Governance Manager
Kirsty Tuffin	Democratic Services Officer

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**
Apologies for absence were received from Councillor Sandra Hevican and Councillor Jane Stevenson.

2 **Notification of substitute members**
No notification of substitutes were received.

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

The Chair declared an interest as he had been a member of the Scrutiny Board of West Midlands Combined Authority.
Cllr Harman Banger declared an interest as he is a member of the West Midlands Combined Authority Investment Board.

4 **Minutes of the previous meeting -**

That the minutes from the previous meeting held on 25 September 2019 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to minute six, Rachel Brothwood, Director of Pensions, advised the group that dialogue with the Fund and Council's auditor would be fed back to the Public Sector Audit Appointments (PSAA) who set the audit fee scale for local government bodies. It was agreed that a letter would be circulated from the Chair to the PSAA raising the Committee's concerns that the external audit fees for the provision of letters of assurance on the Pension Fund's audit were excessive. A reasonable response time would also be included in the letter.

Resolved:

1. That the update regarding minute Six be noted.
2. That it be agreed that a letter to the PSAA from the Chair be sent raising the Committee's concerns with regards to external audit fees.

6 **Quarterly Investment Report to 30 September 2019**

Jill Davys, Assistant Director – Investments and Finance, presented the Quarterly Investment Report to 20 September 2019 which provided an update on the global market and investment update for the Fund, the quarterly Asset Allocation and Performance Reporting for the West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund.

In response to a question raised by Malcolm Cantello, Unison Observer, it was agreed that a breakdown of cash would be provided to the Committee at their next meeting as part of the quarterly investment report.

In response to a question from Cllr Singh, on the risk management of the Fund's assets and the potential for recession Rachel Brothwood, Director of Pensions advised that recession had no direct impact on LGPS benefits, as the Fund is a defined benefit scheme with the pension benefits for members being set in Regulation. Regarding investment risk management, the Director confirmed that a training session was being arranged for Committee and was due to take place in March 2020.

Resolved:

1. That the global market and investment update paper prepared by the Fund's Investment Consultant, Redington be noted.
2. That the Quarterly Asset Allocation and Performance Reporting for the West Midlands Pension Fund be noted.
3. That the Quarterly Asset Allocation and Performance Reporting for the West Midlands Integrated Transport Authority Pension Fund be noted.

7 **Responsible Investment**

Jill Davys, Assistant Director – Investments and Finance, presented the report on responsible investment activities for the quarter ending 30 September 2019.

In presenting the report, the Assistant Director, Investments and Finance noted there had been positive engagement with a number of companies during the quarter in line with the Fund's approach to Responsible Investment.

The Committee were advised that an updated FRC code had come into effect from 1 January 2020, the updated code represents a new best practice stewardship standard for both asset owners and asset managers. The Assistant Director informed Committee that the Fund would be working to review and update the Fund's stewardship code compliance statement during 2020, ahead of transition to the new standard which focuses more on outcomes and reporting. A more detailed review of the Code and work to meet its requirements would be provided at the next Pensions Committee meeting.

In response to questions from the Committee, the Assistant Director Investments and Finance confirmed that following research undertaken the Fund was satisfied that its continued investments in Hanwha subsidiary companies did not breach the principles contained with its Responsible Investment Framework and that the situation would continue to be monitored.

Resolved:

1. That the Fund's voting and LAPFF's engagement activity for the three months ending 30 September 2019 be noted.
2. The issues discussed by LAPFF are set out in the Quarterly Engagement Report which is available on the LAPFF website: http://www.lapfforum.org/publications/qrtlyengagement-reports/ be noted.
3. The issues discussed in the LGPS Central Quarterly Stewardship Report which is available on the LGPS Central website: https://www.lgpscentral.co.uk/wpcontent/uploads/2019/03/LGPS-Central-Quarterly-Stewardship-Report-Thirdquarter.pdf be noted.
4. The new Stewardship Code which is currently under review by officers of the Fund with a view to updating its compliance statement be noted.
5. Additional information in respect of Hanwha holdings be noted.

8 **Legal and Compliance Update**

Rachel Howe, Head of Governance and Corporate Services, presented the update on the work of the Fund to deliver a well governed scheme.

In presenting the Risk Register, the Head of Governance confirmed that discussions were underway with the Chair and Vice-Chair of Committee to further build on the risk management reporting and the presentation of risks to Committee.

Resolved:

1. That the update on the Fund's annual General Data Protection Regulation (GDPR) assurance work be noted.
2. That the quarterly risk register, including the movement of risks and the actions taken to mitigate any impact be noted.
3. That the quarterly compliance monitoring be noted.

4. That the update on emerging changes within the Regulatory Environment applicable to Local Government Pension Scheme's (LGPS) and the wider pensions industry be noted.

9 **Business Performance Update**

Rachel Howe, Head of Governance and Corporate Services, presented the report, which included an update on the key performance indicators for the period ending September 2019, an update on the Fund's digital transformation programme and highlighted the initial considerations for preparing the Fund's Service Plan 2020-2025.

In response to a question raised by Malcom Cantello, Unison Observer, the Head of Governance confirmed that since writing the report the percentage production for Active Benefit Statements (ABS) had increased to 95% and that the Fund continued to undertake detailed data analysis and engagement with Fund employers to identify and where possible, rectify data queries that had prevented the production of a benefit statement.

Discussions were held around the Fund's telephone service including response times for answering telephone calls and checks on the accuracy of information provided.

Resolved:

1. That the Key Performance Indicators for the period up to September 2019 be noted.
2. That the update on the Fund's Digital Transformation Programme be noted.
3. That the Fund's initial considerations in the development of its Service Plan 2020-2025 be noted.

10 **Budget Monitoring 2019-2020 and Quarterly Accounts September 2019**

Jill Davys, Assistant Director – Investments and Finance, presented the report on the update on the forecast out-turn for the year against operating budgets and quarterly accounts as at the end of September 2019.

In response to questions raised by Malcom Cantello, Unison Observer, regarding the Funds cashflow it was agreed that a statement monitoring how the Fund's cashflow is broken down would be provided to Committee.

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Resolved:

1. That the quarterly accounts for the period ending 30 September 2019 be noted.
2. That the West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of September 2019 is an underspend of £0.85m primarily attributable to posts in the process of being recruited to, service development activities in the pipeline and reduced forecasts for investment manager costs be noted.

11 **Management of Overpayments and Member Tracing**

Simon Taylor, Head of Pensions, presented the report on the work undertaken by the Fund in seeking to improve the quality of data held in relation to deferred members and mortality screening. The report also provided an update on the selection of a new provider for these services.

The group were advised that a pilot project for tracing missing addresses for deferred members had been undertaken. The pilot had been successful with over half of cases traced in first assessment. Following the success of this pilot the Fund has developed

a deferred member tracing programme targeting regular checks on member contact information ahead of their anticipated retirement date or 5 year refund deadline payment date.

Simon Taylor, Head of Pensions also advised that the Fund had seen an 89% increase in the number of deceased member identifications following the first exchange of data with the new supplier.

Resolved:

1. That the Fund's process for managing overpayments of pension and the appointment of a new supplier for mortality screening and deferred address verification and tracing be noted.

12 **Pensions Administration Report from 1 July to 30 September 2019**

Simon Taylor, Head of Pensions, presented the Pensions Administration report for the period 1 July to 30 September 2019 for both the Main Fund and the WMITA Fund.

The Committee were advised that following the merger of the WMITA and Main Fund, future reports would present data collectively and not separately as in this current version.

Resolved:

1. 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.
2. The pensions administration activity for both the Main Fund and the WMITA Fund, that performance targets were met across the key benefit operations processes during the reporting period be noted.
3. That it be agreed that the write-offs detailed in section 10 of the report be approved.

13 **Data Management**

Rachel Howe, Head of Governance and Corporate Services, presented an update on the work of the Fund in delivering improved data quality in line with the Pension Regulator's Code of Practice.

In presenting the report, the Head of Governance noted the increase in data quality seen across monthly submissions received from employers on a year-on-year comparator.

In response to a question from Committee, the Head of Governance confirmed that continued engagement with Fund employers regarding data quality was being undertaken in line with the Fund's Employer Engagement Roadmap.

Further discussions were held regarding the issue of ABS production, The Director of Pensions informed the Committee that the Fund had self-reported to the Pensions Regulator with regards to ABS production and that a summary of this report and the response from TPR would be issued to the Committee prior to the next meeting. Further questions were raised regarding escalation processes for employers that did not submit correct / timely information, Committee were informed that requirements for the submission of data and escalation procedures were contained in the Fund's Pensions Administration Statement (PAS) and the Fund would be considering its

ability to use the PAS once all analysis had been undertaken in relation to employer performance and its impact on 2019 statements.

Resolved:

1. That the work of the Fund in delivering its Data Management Strategy and the steps being taken to monitor and drive Data Quality across the Fund be noted.

14 **Customer Engagement Update**

Simon Taylor, Head of Pensions, presented an update of the Fund's customer engagement activity from 1 July 2019 to 30 September 2019, in line with its Customer Engagement Strategy.

Resolved:

1. That the engagement activity and informed service development be noted.

15 **Pension Investment and Administration Benchmarking**

Rachel Brothwood, Director of Pensions, presented the outcomes of the benchmarking exercises undertaken in relation to 2018-2019 for both the delivery of Fund's Investment and Pension Administration Services.

The Committee were advised that the Fund's peer groups for benchmarking comprised of comparable LGPS and non-LGPS schemes, based upon the scheme size, membership mix and the availability of data, with investment benchmarking undertaken at a global level.

The Committee were informed the benchmarking exercises had demonstrated that the Fund continue to provide a value for money service across pension administration and investments.

Resolved:

1. That the initial results and key outcomes of the benchmarking exercises undertaken for 2018-2019 for both the Fund's Investment and Pension Administration Services be noted.

16 **Fund Merger**

Rachel Brothwood, Director of Pensions, presented an update on the merger of the West Midlands Pension Fund with WMITA Fund following the outcome of the formal consultation published in October 2019. The report also provided an overview of the next steps required to effect the merger meeting the requirements of the Regulations and the associated Secretary of State Direction.

Malcolm Cantello, Unison Observer asked whether previous investment strategies approved for the WMITA Fund would still be applicable. Rachel Brothwood, the Director of Pensions confirmed previous strategies were still applicable and that moving forward funding and investment strategy statements would have separate appendices for former WMITA Pension Fund assets and liabilities. Committee were informed that the merger would not result in any fundamental change to the Fund's risks and there would be no changes to member benefits.

Resolved:

1. That the outcome of the Public consultation on the West Midlands Fund Merger with associated Regulations effective from 8 November 2019 be noted.

2. That the receipt of the Secretary of State's Direction on the Establishment of Admitted Body Funds be noted.
3. That the programme of activity underway to effect Merger and meet the requirements of the Direction be noted.

17 **Exclusion of 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.

18 **2019 Valuation Update**

Simon Taylor, Head of Pensions, presented an update on the 2019 actuarial valuation and outline of proposed changes to the funding strategy statement (FSS), under consultation with Fund employers.

Resolved:
1. That the report and the associated update on progress with the 2019 actuarial valuation of both the Main Fund and the employers of the former WMITA Pension Fund be noted.
2. That the update on the associated employer covenant review in the context of the Fund's Integrated Risk Management Framework be noted.
3. That the headline results of the 2019 actuarial valuation be noted.
4. That the Proposed changes to the funding strategy statement be noted.
5. That the Consultation undertaken to date be noted.

19 **Investment Strategy and Activity Update**

Jill Davys, Assistant Director – Investments and Finance, presented an update on the investment strategy and activity in the West Midlands Pension Fund (WMPF) and the WMITA Fund over the quarter.

The Director of Pensions, Rachel Brothwood informed the Committee that the Fund's approach to climate change had been highly commended by IPE at their annual awards in the Climate Related Risk Management category.

Resolved:
1. That the update on investment strategies for the main Pension Fund and the WMITA Pension Fund be noted.
2. That the highlights of recent activity within the Pension Fund be noted.

20 **LGPS Central Shareholder Update**

Rachel Brothwood, Director of Pensions, presented the LGPS Central Shareholder Update report.

Rachel Brothwood, Director of Pensions advised that the CEO had now confirmed on behalf of the Company Board that the necessary changes required to comply with the FCA Senior Manager Compliance Regime (SMRC) applicable to LGPS Central Limited had been implemented. It was noted that the Chair and Vice Chair of the Committee would be attending the Joint Committee meeting in Stafford on 14 February 2020.

Resolved:

1. That the Director of Pension's update on Shareholder business relating to LGPS Central Limited and work ongoing to review the 2020-2021 Strategic Business Plan and Budget ahead of the Company meeting in February 2020 be noted.

21 **Guaranteed Minimum Pension Reconciliation**

Simon Taylor, Head of Pensions, presented the report on GMP Reconciliation.

Resolved:

1. That the appointment of ITM to undertake stage 3 of Guaranteed Minimum Pension (GMP) Reconciliation be approved.
2. That the delegation of authority to the Director of Pensions in consultation with the Chair or Vice Chair of Pensions Committee to agree an approach for special cases arising from under or over payment where specialist legal advice may be required be approved.
3. That the action taken by the Fund on GMP reconciliation be noted.

Agenda Item No: 2

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

25 March 2020

Report title	Service Plan 2020-2025 and Business Performance Report	
Originating service	Pensions Services	
Accountable employee	Rachel Howe Tel Email	Head of Governance and Corporate Services 01902 55 2091 Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Committee is recommended to:

1. Agree and adopt the Service Plan 2020 – 2025.

Recommendation for noting:

The Committee is asked to note:

1. The Fund performance against Key Indicators up the period December 2019.

1.0 Purpose

1.1 To present Committee with the proposed Fund Service Plan 2020 – 2025 confirming the areas of focus and drivers for change over the next five years.

1.2 To provide Committee with an update on the Fund's performance in key service areas.

2.0 Service Plan 2020 – 2025

2.1 Over the year 2019-2020, the Fund has seen a range of Scheme-wide developments and reviews from national bodies such as Scheme Advisory Board and the Pensions Regulator together with a number of key court and Ombudsman cases which has led to LGPS Funds coming under the spotlight within the pensions industry. Updates on these activities have been provided to Committee at each meeting together with an overview of the actions and engagement undertaken by the Fund to pre-empt and respond to the changing environment in which we operate.

2.2 As well as looking back on the performance delivery of the Fund over the last 12 months, responding to the challenges and opportunities highlighted in our 2019 – 2024 Service Plan, the Fund's 2020 – 2025 Service Plan seeks to identify forthcoming challenges from both the external wider LGPS and investment industry in which we operate together with responding to internal factors and stakeholder feedback, which shapes the way we develop and enhance our services for our customers, how we respond to challenges and identify opportunities to develop the Fund.

2.3 In our report to Committee in January we highlighted some of the key drivers for change in developing our Service Plan we have considered the views and opinions of our governing bodies, customers and wider stakeholders. Throughout the year, through our Customer Feedback policy and Engagement Strategy, we have engaged with our stakeholders to understand what matters to them in their interaction with the Fund, and their pension saving planning for taking retirement benefits. In conjunction with voluntary feedback (received through surveys), we have also undertaken direct engagement through our member workshops, our employer peer group and annual events.

2.4 Following this engagement, included within our Service Plan are our areas of focus for the Fund which seek to address and respond to the feedback from our stakeholders, these include;

- Enhancing outcomes from employer engagement
- Building stronger partnerships for service development and delivery
- Continuing to develop and build internal teams and operational structure to match the requirements for service delivery, at standards above the minimum
- Review and development of robust processes for financial & information management
- Continuing to develop and enhance communications with all stakeholders to ensure wide service utilisation

- Initiatives to recognise performance and achievements
- Ongoing investment in systems and tools to enhance operational efficiencies
- Ongoing engagement across our local footprint and wider LGPS
- Ongoing programme of data improvement
- Continued support to develop people and skills
- Joined-up working across specialist service areas
- Responsible employer, culture of social responsibility and champion to make a difference

2.5 A copy of the Service Plan 2020 – 2025 is attached at Appendix A. Following approval by Pensions Committee, the Plan will be updated with yearend statistics and published on the Fund website.

3.0 Key Performance Indicators

3.1 Attached at Appendix B are the Fund's Key Performance Indicators reported to December 2019.

3.2 Overall the Fund has seen steady performance against target with the majority of KPIs achieving target or projected to achieve target by the end of the year. Further details on the workload and process KPIs is provided in the Pension Administration Report.

3.3 In relation to the Fund's statutory response times for information governance queries, in some instances, information is required to be obtained from external fund managers to fulfil these requests and are often complex breakdowns of investment information. For the period reported, the Fund received 9 statutory information requests (2 Subject access requests and 7 FOIs), of those 1 FOI was produced outside of statutory timescales with the requestor being informed of the process and the need to obtain third party information.

4.0 Financial implications

4.1 The continued change in both the administration and governance requirements of LGPS Funds together with increasing regulation continues to increase demands on the resources of Funds. The Fund is committed to developing its services for members investing in its resources to ensure efficient and effective operational practices and procedures are in place, supported by strong governance and risk management.

5.0 Legal implications

5.1 The Fund has a duty to comply with statutory and regulatory requirements in the management and administration of the Fund and it is obligated to report matters of material significance to the Regulator where breaches of those standards are identified.

6.0 Equalities implications

6.1 The Fund's Service Plan has been drafted in consideration of its duties under the Equality Act. 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 Business Performance Update Report presented to Committee on 21 January 2020 https://wolverhampton.moderngov.co.uk/documents/s135070/Business%20Performance%20Update.pdf

11.0 Schedule of appendices

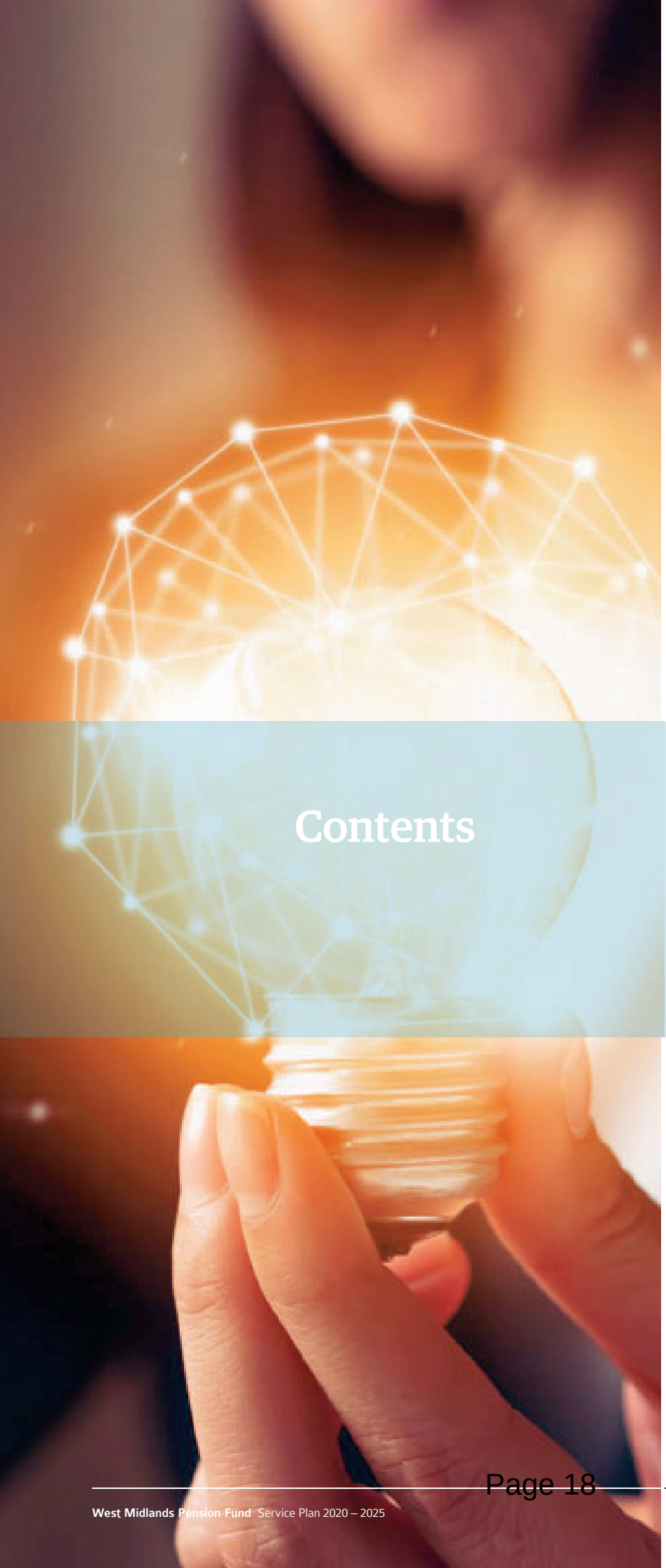
11.1 Appendix A: Service Plan 2020 – 2025.

11.2 Appendix B: Key Performance Indicators.

Appendix A

Service Plan 2020 - 2025

West Midlands Pension Fund



Contents

Executive Summary

The West Midlands Pension Fund administers the benefits and invests the assets of one of the largest funds within the Local Government Pension Scheme. Working in partnership with 703* participating employers, we deliver pensions information and benefits to over 330,000* pension members, predominately located within the West Midlands' region.

* as at 31 December 2019

The Service Plan for 2020-2025 is set in context of the challenging and changing environment impacting all public sector and UK pension schemes. We continue to respond to evolving regulatory and reporting requirements, working proactively to drive good governance and efficiencies in our approach to developing strategy and implementation.

Following in-depth review of funding and investment strategies during 2019/20, focus will change to implementation and monitoring of changes, ensuring effective implementation and development of strong internal processes and controls to monitor and manage risks.

The customer toolkit will continue to be enhanced as further aspects of the Digital Transformation Project complete development, testing and roll-out. Service access will continue to expand with increasing online functionality, information and opportunities for member and employer self-service, with pilots and market research used to inform and prioritise developments.

Review and ongoing development of internal controls and information management will continue hand-in-hand with monitoring performance as new guidance and best practice standards emerge. Scheme data quality, together with processing capabilities will continue to develop to aid operational efficiencies.

Utilising scale to influence, build partnerships and demonstrate value for money will continue to be a theme driving delivery of Fund's ambitions and policy objectives. Having successfully launched a dedicated Framework and Strategy for Climate Change, the wider Responsible Investment Framework and Stewardship activity will be reviewed to ensure these are embedded and outcomes support the Fund's dual ambitions.

Building and developing strong teams is a focus of our People Development Strategy. Training will continue alongside recruitment to specific skills sets, supported by practices recently recognised through our Investors in People re-accreditation, with enhanced Gold-standard achieved.

INVESTORS IN PEOPLE | Gold

Promoting success and achievements will take a more prominent role in seeking individual and Fund-wide recognition.

Ongoing development and nurture of internal and external partnerships local and further afield will be key to supporting the successful delivery of our Service Plan. Risks to delivery centre largely around attaining and maintaining the required people skills, system and tool (specific to West Midlands Pension Fund) and the ongoing changes to the scheme, including potential for significant benefit review required as a result of remedy to the McCloud/Sargeant rulings, approach to GMP equalisation and completion of the scheme cost management review process.

Through the delivery of this plan we look forward to making a difference locally, whilst continuing to act as a catalyst for wider positive change on a wider range of issues important to Fund stakeholders.

Rachel Brothwood
Director of Pensions

Introduction

As a public service pension scheme, the West Midlands Pension Fund is focussed on delivering value to our customers and stakeholders, ensuring information and support is available at the right time to enable pension members to effectively plan for their retirement and to support our employers in performing their role as they participate in the statutory local government pension scheme.

The 2020 Service Plan has been developed by the Fund's Senior Management Team and approved in March 2020 by the Pensions Committee following a period of engagement with the Committee, Local Pension Board (including employer and member representatives), Employer Peer group, Fund employees and review of customer feedback. It outlines service priorities emerging over the next five years, in the context of recent activity and the changing operating environment, together with the anticipated resource requirements and approach to managing delivery.

Central to delivery of the Service Plan 2020-2025 is the continuous development and build of a strong governance framework, recognising the changing and challenging environment in which the Fund operates. Working to ensure we are able to adapt and respond to continue to deliver a high quality and valued service that is responsive to the environment in which we work. Our core mission is to ensure that our members receive their pension benefits when they fall due, but more than that, to ensure our members are able to plan their retirement with access to information about the benefits they can receive and the options available to them. Working with our employers we aim to contribute together for our members' future through the effective partnerships we create to support retirement planning.

he Local Government Pension Scheme environment has seen some significant developments throughout 2019 with emerging reviews signposting changes coming to the scheme and the regulation and guidance set to determine how LGPS Funds operate.

The West Midlands Pension Fund continues to stand at the forefront of change leading on new initiatives and service development with a number of new services launched in 2019 which aim to support and reflect our customers' needs.

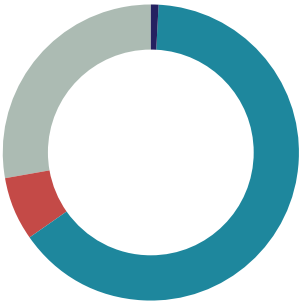
About the Fund

There are three categories of members within the West Midlands Pension Fund with membership split roughly one third across each category.

- Active members, who are currently employed by one of the Fund's employers
- Deferred members, who worked for a scheme employer in the past and are entitled to receive a pension from the Fund in the future
- Pensioners, who are receiving their pensions

Employers

The Fund has in excess of 700 employers split across a number of employer categories. The majority of our employers are now academies, local authority schools which have converted to academy status, with the majority of membership and liabilities being attributable to the seven metropolitan district councils.



Local authority	7
Academy	452
Admitted bodies	49
Scheduled bodies	195

As at 31 December 2019

Throughout 2020 – 2025, we will further these developments in a program of ongoing review and response to an evolvinig landscape for pensions and the LGPS.

- **Strong governance**
- **Customer fosused**
- **Global influence**
- **Delivering for local people**

Progress towards delivery of the Service Plan is monitored on a quarterly basis, with the next annual review due by March 2021.

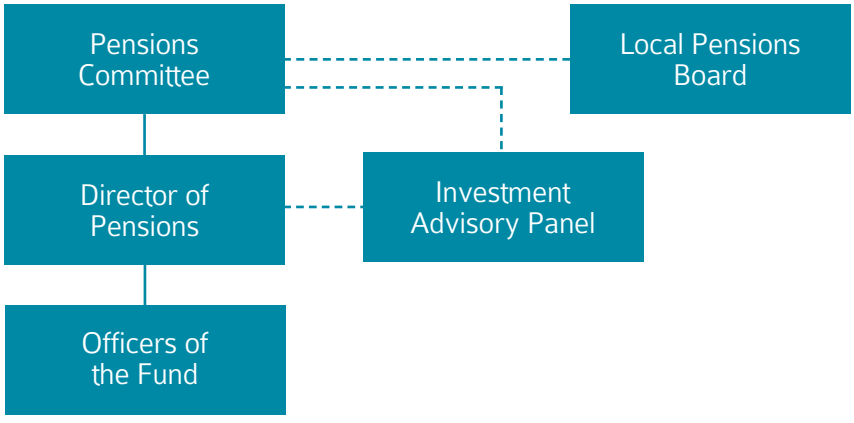
Governance

The Fund is governed by a Pensions Committee which sits as the decision-making body, setting strategy and policy as to how the Fund is managed. The Pensions Committee delegates the day-to-day running of the Pension Fund to the Director of Pensions who in turn delegates to her Senior Management Team and officers.

The Local Pensions Board, made up of equal member and employer representatives, sits in an advisory role to the pension fund, supporting the good governance of the scheme. Throughout 2019, the Local Pensions Board had a primary focus on member engagement ensuring the Fund had a wide reach across its differing member and employer base. With a national focus on ensuring members are fully informed (and protected) in their pension choices, member communication will remain a focus for the Board in 2020 together with monitoring the development of our Funding and investment strategy ensuring their effective implementation.

Effective governance is key to ensuring the quality of service delivery our customers have come to expect and the governance structure at WMPF has been created to provide assurance to our stakeholders and governing bodies with opportunity afforded at every level to obtain specialist, skilled and professional advice.

More information on the governance of the Fund can be found in our Governance Compliance Statement, available on our website.



Mission Statement

Contributing together for our members' future, delivering the best outcome for all.

As a Fund, we recognise that the world of pensions is a mystery to most, and the options available at retirement even more so. Through the engagement, information and support offered, the Fund aims to ensure that every member can access the options available in planning for and taking retirement and at key events in their lives, along the way.

We recognise the value in engagement with our partner organisations, be it other LGPS Funds, service providers or industry bodies and the need to continue to be alert and proactive to change. We engage early to inform debate and work in collaboration to achieve good outcomes for the Fund and wider LGPS. This is demonstrated through our active participation with bodies including the Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accounting (CIPFA), Pension and Lifetime Savings Association (PLSA), Local Authority Pension Fund Forum (LAPFF), other forums including cross pool groups and the National LGPS Frameworks.

The LGPS Central investment pool has been formed to enable the pooling of assets by administering authorities of eight funds in the Local Government Pension Scheme (Partner Funds). In order to effect the pooling, the Partner Funds have established an FCA-regulated operator company to build and manage collective investment vehicles.

LGPS Central Limited

More than a collective investment vehicle, the partnership working of funds complimented by industry specific experts in an FCA-regulated entity, has enabled focused and collaborative engagement on key issues such as Responsible Investment which has heightened the ability to protect and enhance fund assets, recognising the benefits to be gained from global alliances in tackling major international issues such as online security and climate change.

PRI Principles for Responsible Investment

CTI COST TRANSPARENCY INITIATIVE

IIGCC Institutional Investors Group on Climate Change

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

In developing our mission statement, we have identified five core themes for action and through PRIDE we will contribute together in the Partnering of relationships across our internal teams and wider across the pensions and investment industries ensuring a Responsible approach to the management of the benefits we have a duty to protect; through Driving efficiencies in the process and management of member benefits we will deliver desired outcomes through active Engagement on key stakeholder issues which help shape the LGPS together with the our focussed service delivery enabling our members to make informed decisions at the right time

PRIDE Objectives

Partnering for success

Responsible asset owner, employer and local community partner

Investing to increase capacity

Drive efficiencies and cost savings

Engage to improve outcomes for customers

A Year in Review

During 2019/20 the Fund focussed on our eight corporate priorities.

Customer engagement and communication

Seeking feedback on the delivery of our services is key to the Fund's ability to continually improve our customer's experiences and this year we launched our bespoke customer feedback surveys related to their specific experience (for example, at retirement and as new joiner). The surveys seek to understand how the information is received by our members, how it can be improved to further aid understanding improve customer experience and highlight any areas for service development, making our members' journey as smooth and effective as possible.

Our people

This year we enhanced our People Development Framework through the development of our Employee Training Policy and Fund Trainee and Graduate program, building knowledge and skills for the future.

The training policy is created to encourage people to manage their own learning and embed self-development based on identified business needs with the responsibility for its success being driven by both Managers and Employees. Continuous Professional Development (CPD) expectations are set through training hours and supported through the appraisal process. This aims to ensure that employees maintain and enhance the knowledge and skills needed to deliver a professional service to our customers and employers.

In conjunction with the training policy review, we have redeveloped our appraisal system for employees within the Fund, focusing on developing behaviours and skills to support individual progression and ongoing contribution to the delivery of the Fund's goals. This new approach has received positive feedback from our employees in role recognition as well as identifying opportunities for self-development.

Governance and risk

Following review of the Fund's Risk Register and the introduction of the risk maps in 2018, our legal and compliance team have begun to build on this work through review of the compliance monitoring program which tests the strength of our controls, providing additional assurance of the mitigations in place to manage potential risk.

The new Governance and Assurance Framework, while in early stages of creation, will more closely link the emerging expectations and areas of focus from The Pensions Regulator and governing bodies (SAB), with the Fund's routine monitoring and controls. This will strengthen risk management and identify areas for service development while ensuring ongoing compliance with statutory requirements.

Data management and reporting

The production of annual benefit statements is linked to the quality and completeness of data held by the Fund about its members. and we continue to engage on the development of scheme specific data and standardised reporting for the LGPS as a whole.

The Fund continues to develop our monitoring and reporting capabilities for measuring the quality of the Fund's data for a number of purposes, including valuation, pensions increase and for statutorily reporting on common and scheme specific data required by The Pensions Regulator. The development of the Employer Hub capabilities, which will support transparency and reporting (including data quality), will further support progress of this priority.

Regulatory and system change

We continue to drive forward our Digital Transformation Programme, which focusses on the development of the Fund's key systems, working in partnership with the software supplier to develop new solutions and capability. Alongside the development of the system, the Fund is reviewing the governance of the day-to-day management of the business as usual system upgrades, to ensure planning, documentation and controls and testing tools are up to date and effective.

Funding and investment strategy

Detailed review of the Fund's funding and investment strategies has been undertaken during the year in conjunction with the 2019 triennial valuation. Consultation with employers on future contribution requirements has been ongoing throughout the year with consideration of the potential impact on costs of scheme benefit following remedy due for all public sector pension schemes as a result of the McCloud ruling. Overall, improvements in funding level has created opportunity to review investment risk and the investment strategy has been developed to increase risk efficiency.

Strategic Asset Allocation

There has been increased focus and review of asset allocation during the year, in the context of ongoing geopolitical and associated market uncertainty. Asset class, region and currency factors have been considered in portfolio positioning throughout the year, with more defensive allocations utilised to manage exposure. In line with the ambition set within our Climate Risk Strategy and Framework allocations have been made towards strategies which are more resilient to climate change and the opportunities of transition continue to be monitored.

Financial management and cost transparency

Responding to our duty to ensure value for money we have been on a five-year mission to better understand our investment costs. In doing so, we have continually taken steps to ensure effective investment governance, being able to make more informed investment decisions.

In 2014, WMPF developed in-house cost disclosure templates for its fund managers to complete. Based on our experiences from those early templates, the scheme has since helped to shape the industry-wide Cost Transparency Initiative (CTI) model and we are now an influential advocate of CTI which helps to inform investment planning and decision-making. In managing financial risk we need to balance our duty to pay pensions and deliver our long-term funding needs, where returns are generated through proven investment products.
https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/WMPF-CTI-Case-Study-b.pdf

National Developments

McCloud and Sargeant
Under the 2015 changes to public sector pensions, workers 10 years from retirement were protected from reforms which saw younger workers shifted into less generous pension arrangements, a decision that was challenged in the courts. In 2018, the court found that those who did not qualify for "transitional protection" were unfairly discriminated against which means the changes effected in 2015 were no longer legal and need to be remedied. At this time it is unclear what those remedies are but it is anticipated to impact on LGPS funds both in terms of data management, where historic data requirements will need to be completed to accurately calculate pension benefits and in terms of funding where contributions may need to be reviewed in consideration of any changes to employer liabilities.

Pensions Fraud and Liberation
Throughout 2019 the Pension Ombudsman made determinations on 2 cases which have the potential to bring significant change across the LGPS in the protection of members from pensions fraud/liberation. In both cases members opted to transfer out their pension benefits to a private scheme which later resulted in financial loss when the private scheme later became unsecure.

It was determined that the LGPS funds had not done enough to warn members of the potential loss from these private schemes, and it is anticipated that throughout 2020 further developments will be forthcoming about the level of protection and information funds should be providing to members when making decisions about their future retirement income.

Investment Policy
The West Midlands Pension Fund has always been seen as a leader in its Responsible Investment and Stewardship practices.

During 2020 the LGPS is expected to receive new guidance on how funds can invest and protect the future of investments through responsible investment management. WMPF is well positioned to respond to this requirement having launched its Climate Change Framework and Strategy in 2019 and continuity of global engagement on a range of issues relevant to all institutional investors.

Having developed our global sustainable equities mandate in 2019, we will continue to look for opportunities that meet long-term investment objectives including those which are responsive and considerate to the global challenges facing our environment.

The Cost Transparency Initiative is a new industry standard for institutional investment cost data. The availability of comprehensive and transparent information on costs and charges is important in helping investors to decide whether investments represent value for money helping to inform investment planning and decision making. Adoption continues to build amongst both private occupational and public sector schemes.

CTI COST TRANSPARENCY INITIATIVE

Good Governance
Following the publication of its Good Governance review, the Scheme Advisory Board will be working to develop its statutory Governance Assurance Framework, which will include a higher level of reporting and assurance on management practices within LGPS funds. Having undertaken our own independent assessment of governance in 2018, which noted the Fund as already operating beyond the minimum required of an LGPS fund, we are well placed to respond to this increased oversight and we welcome the added assurance this stands to provide to our stakeholders.

In addition to the management and administration of the Fund, Good Governance is also a part of the Fund's commitment to investment pooling, having adopted a governance framework outlining the governance arrangements for the Pool, including capturing the structure, roles, responsibilities and authority in relation to LGPS Central Investment Pool.

This framework seeks to clarify the roles of the different parties involved in delivering investment pooling in line with Government criteria and statutory guidance and sets out how they interact and compliment each other in the delivery of investment pooling.

Drivers for Change

Noting the changing environment in which the Fund operates, there are a number of key themes we will focus on developing as we continue to enhance service delivery

External factors

- **Good Governance**
  The outcomes of this review is anticipated to see a higher level of reporting from LGPS Funds, with greater oversight on outcomes. This year the Fund has successfully recruited to the vacancies across its Governance and Assurance team who are now reviewing the assurance framework responsive to evolving expectations emerging from our regulators. With an increased focus on good governance, we expect to see an increased expectation on the role of the Local Pensions Board having been highlighted in the Good Governance review as being inconsistently used across the LGPS. The Fund continues to work with its Local Pensions Board to develop its own workplan for the year based on their continued priorities for our members and employers.

- **Knowledge and Skills (Decision-Making Bodies and Officers)** Contained within the current tPR Code of Practice is a requirement on the Local Pensions Board to undertake training and to develop their knowledge of the LGPS, it is expected the TPR standards for Local Pensions Boards will be adopted as a minimum by the LGPS in due course. The Fund already has in place an effective and detailed Trustee Training Policy which it will seek to build on over the 2020/21 democratic year in line with its People Development Strategy.

- **Changing Member Expectations**
  In an era of digital engagement, it is expected that members will change the way the engage and interact with all service providers and the Fund is no different. This year the Fund has already started to see the changing behavior of our membership with more members than ever registered to use the online portal with an increasing number of member contact through email. This, together with the engagement of employers for the Fund's digital transformation program, demonstrates a rising demand for more immediate access to information and services. The Fund will look to develop this further in the way it enhances its customer engagement opportunities through the delivery of webinars and online videos.

- **Data**
  Data continues to be of focus to TPR and the production of benefit statements with content of key information to enable members to plan for their retirement. This will become a further focus as Government develop the Pensions Dashboards covering all UK pensions.

  Clean data is essential in undertaking funding review implementing scheme benefit change and enabling automation and member self service.

- **Responsible Stewardship**
  This year the Fund is expecting to see a move to a statutory requirement on LGPS Funds to publish their Investment Strategy with more focussed statements on its approach to Responsible Investment, Stewardship and Shareholder Voting. The Fund is a signatory to the UK's Stewardship Code having achieved Tier 1 on last review and is working with its investment partners, including LGPS Central Limited, to deliver engagement programme.

- **Transition to Low Carbon Economy**
  The Fund is a founder investor in the LGPS Central Limited All World Climate Multi Factor Fund which has been designed to take into account the risks and opportunities associated with climate change, tilting away from companies with greater carbon emissions and the most carbon intensive fossil fuel reserves instead favouring those with green revenues, integrating responsible investment factors by design. Aligned with the Fund's Responsible Investment approach, and with the overall aim of delivering investment returns to help meet the cost of providing pension benefits in the future and is a further step in the Fund achieving its objective of being a responsible investor seeking opportunities to protect and enhance the Fund's asset values.

- **Potential Scheme Changes**
  In the current regulatory environment, there is potential for a number of changes to take effect which impact the Fund's governance and administration of pension benefits as well as having the potential to impact our employers and stakeholders. We will continue to engage and inform our customers of the potential for change and the potential impact this may have while investing in our service delivery to ensure efficiency in processing providing educational material and working with our partners to find a solution.

Internal factors

- **Employer Compliance**
  Linked to the above, is the ability of employers to provide good quality data and over the course of the next year we expect to see an increased focus from TPR on employer compliance and with that, an increased focus on funds' adoption and use of their Pension Administration Strategy (currently a voluntarily adopted policy and one which WMPF has published for a number of years).

  Our ability to support our employers on this journey through the delivery of employer hub and employer web trays will help facilitate collaborative working and overall service delivery for members.

- **Key Person – Resource and Retention**
  The Fund has always identified its people as one of its key resources and this year developed a new Employee Training Policy and new appraisal process ensuring opportunities are afforded to colleagues who wish to further their careers in the pension industry. This year, the Fund has seen 28 internal movements (career progressions) with 38 new appointments across key service areas.

  With the successful launch and recruitment to its Graduate and Trainee Program, the Fund will seek to further build on this over the 2020/21 year having seen a number of individuals come back to the Fund having been employed as a trainee during their university term.

- **Protection of Members**
  Following the recent Ombudsman cases on Northumbria Police and Hampshire it is expected that pensions fraud and pensions scams will receive more focussed considerations from both TPR and the Scheme Advisory Board over the next year. Expectations for how funds can protect and support members are likely to increase. The Fund is well placed to respond to this focus having launched its Safeguarding Board this year and with plans to further develop its "Know your customer" campaign in the protection of vulnerable persons.

Case Studies

Member Workshops

The Fund has identified that it is not just about presenting members with the value of their LGPS benefits and highlighting the options available to them, but more importantly to provide guidance and support on planning for retirement on a wider scale. The Member Services Team who delivers this specialist support launched its new "Planning Your Retirement Workshop" in January 2019. This workshop which runs for 2.5 hour is dedicated to providing members with guidance, toolkits and sign posting, along with the necessary support to enable them to effectively plan from a financial perspective for life after work.

Not only does the workshop provide valuable information on the Local Government Pension Scheme and the benefits which it offers, but also how the state pension builds up and how and when it can be accessed. Fund officers also provide a basic overview of taxation along with additional benefits members may be able to claim. Part of the workshops includes an exercise to encourage members to calculate their retirement benefits manually, so they don't just know what they are likely to receive in retirement but to understand how their benefits build which enhances member understanding.

Following the pilot of this successful workshop, which received excellent feedback and comments, this support has been rolled out across all employers, who we are seeing, are incorporating these workshops within their learning and development programmes.

It is clear that this is a growth area for the Member Services Team and a huge innovation for enhancing member engagement.

Fraud/Safeguarding

Noting the changing and aging profile of our membership, the Fund focused on enhancing its safeguarding protocols developing our "know your customer" protocol and adopting our vulnerable person statement.

The effectiveness of this policy was tested during 2019, when the Fund became aware of pension fraud committed against one of our oldest members. Through the effective use of Fund policies, the Fund was able to identify the fraudulent activity, prevent its future occurrence against the member and protect the member's vulnerability through inter-agency collaboration ensuring the security of payments and personal support.

Climate Change Strategy – Company Engagement

The Fund is a member of the Pension Fund Forum (LAPFF) collaborative shareholder engagement group which aims to protect the long term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibilities through active shareholder engagement and voting.

This year, the Fund adopted 4 engagement themes as areas of increased focus in the climate change arena with single use plastics being one such theme. During the year LAPFF progressed work on this issue on behalf of forum members, joining a coalition of investors engaging with companies on the overall threats posed by plastic waste and pollution. The Forum met with two companies on this specific issue as well as discussing single-use plastics specifically. Additionally, the Forum co-signed a letter to a range of companies on reducing plastic pellet loss as well as the issue of plastic packaging.

In the months following the engagement the companies committed to reduce the use of virgin plastic across its portfolio by 35% by 2025.

People and Skills

Having the right people with the right skills, knowledge and behaviour is fundamental to the work of the Fund and we have developed a People Development Strategy to ensure the ongoing success of the people and the organisation able to respond to its customers' needs.

Ensuring people feel confident in their roles is fundamental to the People Development Strategy as this leads to improved efficiency and productivity in working practice and promotes an inclusive environment where collectively and individually our team members contribute to the success of the Fund, as well as finding new ways to achieve personal development and success.

We believe that effective learning and development benefits the individual and the organisation and contributes to the delivery of the Fund's objectives. We continually review training initiatives so that relevant training is provided for skills in specific service areas with learning and development objectives aligned to strategic objectives and priorities.

Our people are our greatest resource, not only in the service they provide to our customers, but also as ambassadors for the Fund, from the Fund's front line services to our Senior Managers representing the Fund at external events, to the annual events hosted each year for Fund employers, all play a role in promoting the Fund as a high quality, customer focussed, industry-leading pension fund.

Graduate and Trainee Case Study

Louis – Systems Support Technician
Louis joined the Fund in 2017 as an apprentice straight from completing his A-Levels and has since secured a permanent role with the Fund.

Since being at the West Midland Pensions Fund, I have achieved many things that I feel quite proud of including taking on new roles and developing new skills. Whilst being an apprentice on the systems team I have achieved my level 2 business administration qualification which paved the way for me to achieve a fixed term contract on the team as a System Support Assistant. This is something I am very proud of as I feel all the skills and experience I gained off the apprenticeship allowed me to gain this new role. The next was after completing my role as a System Support Assistant I then achieved a permanent role as a Systems Support Technician which I am also very proud of and I think ultimately this stems from being given the opportunity to start work as an apprentice at the Fund shortly after finishing my A-Levels.

I believe there are many opportunities working at the Fund as I believe It shows a clear path of progression with the grading system; when I started as an apprentice, I always strived to gain a permanent role and wanted to stay at the Fund.

I think my most favourite thing about the Fund is the people that work here and how everyone strives to get along and help each other out. When I started everything was very new to me as it was my first job and when going around the building fixing problems for people if there was anyone that I didn't know or anywhere I had to go they would always help me out and point me in the right direction.

Rachel – Trainee Solicitor
Rachel joined the Fund on the graduate training program having completed her law degree at Wolverhampton University. Prior to joining the Fund, Rachel was employed as a paralegal in a West Midlands law firm.

Before joining the Fund I worked for various companies both as an in-house paralegal and within law firms. I found that I preferred working in-house providing legal advice to the company I work for rather than external clients. Becoming an in-house trainee solicitor is what initially drew my attention to the fund as the diversity of work I knew I would be undertaking was a major factor in my decision to apply. Having worked in a single area of law previously, I knew that I wanted more variety in my workload. I also expected that the variety would allow me to carry on expanding my legal knowledge outside of the areas I had already worked in. Before attending my interview I carried out a lot of research reading the Fund's website and published information, having been in post for six months, I have learned how vast and varied the Fund's work is from investments, to data protection, to procurement and safeguarding and the protection of vulnerable members.

I would encourage anyone to apply for a role in the Fund as you will be surprised by the variety of work you can become involved in.

Laura – Graduate Management Trainee
As a Graduate Management Trainee within Operations, my role is to provide project support for the service area's projects and programmes. I also spend a day a week learning the various processes required to administrate pensions.

I chose to apply as I felt the Fund would provide good opportunities for progression. Following university, I was unsure of what I wanted to do as a job, so the range of responsibilities described in the Fund's graduate programme really appealed to me. I was particularly interested in the General Graduate role (Operations), as it interested me as a route to learn new skills and undertake a well-recognised qualification, whilst not being penned in to a specific career path straight away.

My favourite things about the Fund are the diversity of my job and the people at the Fund. I am lucky to work with people from many services areas, and the support I have received to aid my development and improve my knowledge demonstrates what a welcoming place the Fund is to work. The wide range of projects I am involved with provide new challenges every day, which I enjoy, and the fact these projects will have long lasting service improvements provides me with great job satisfaction.

Our Goals and Ambitions

In developing our Service Plan it is important that we reflect and consider the views and opinions of our service users, our customers and our standing in the wider industry.

Throughout the year, through our Customer Feedback policy and Engagement Strategy, we have engaged with our stakeholders to identify their areas of focus in the forthcoming 12 months, services they would like the Fund to develop to support their needs

In conjunction with voluntary feedback (received through surveys), we have also also undertaken direct engagement through our member workshops, our employer peer group and annual events, all of which generated desired outcomes in the way the Fund delivers for their needs.

Key Themes From Our Stakeholders

Employers

- Efficiency in process/systems to support resource constraints
- Enhanced reporting on performance and data quality
- Self-sufficiency to manage own service delivery
- Accessibility/coverage for members
- More information on legislative change and possible implications
- Funding stability aligned to budgetary cost pressures

Members

- Complexity of pensions makes understanding them difficult when trying to choose the right options
- Ability to engage young people in pensions
- How do I plan my retirement and what does it look like?
- Instant access and response
- Innovation - development of digital presence
- Ongoing ability to interact with officers to aid understanding

In addition to stakeholders, it is important that the Fund takes strategic lead from its governing bodies, those charged with responsibility for delivering our members' outcomes. A keen focus from our governing bodies is ensuring we are delivering for members providing timely and accurate information for them to be able to plan their retirement affording opportunity to take action where they feel it necessary to ensure they can retire with confidence. During 2019 we started the roll out of our digital transformation program, which will continue to develop throughout 2020-2021 with the aim of streamlining processes and effecting the self-service requested from our customers.

As well as ensuring delivery for our customers, our Pensions Committee and Local Pensions Board are focussed on ensuring the Fund plays its part as a responsible investor responding to the call for action on climate change and ensuring we are good stewards of the assets we hold.

Taking into account this feedback and the drivers for change highlighted in the earlier sections of this Service Plan, we have identified three key themes we will look to develop and deliver over the coming one – five years.

Our Goals and Ambitions

Theme	Focus	Target
Information Management	• More online and web-based access • Know Your customer • Benefit/scheme changes • Reporting and performance monitoring tools (employers and Fund)	Through knowing our customers and understanding their differing needs we will enable members and employers to be proactive in their pensions planning and confident in their decision making. To support this, we will inform and help prepare our customers for change (both in fund processes and scheme/national change). Through the initiatives being developed in our Digital Transformation Program, we aim to enable greater self-management and enhance decision making tools
Risk Management	• Employer funding journey • Implementation and monitoring investment strategy • Thematic approach to responsible investment • Enhancing procedures and protections • Governance and assurance	Through identifying and actively managing our risks we aim to be sighted on issues which could impact service delivery and progress in meeting strategic objectives. Through developing effective risk management tools, we will identify and capture opportunities building assurance of the Fund's ability to manage the changing landscape in which it operates.
Efficiency & Resourcing	• Our people – capacity and skills • System automation and processing • Digital transformation • Change through collaboration	Developing our People Development Strategy to build resource and skills needed today and in the future. Through developing our systems and enhancing efficient working practices, the Fund not only supports its people to deliver services that meet customer's changing demands, but also ensures we continue to be responsive and flexible to the growing membership and employer base. Throughout 2020/21 we will continue to utilise tools for measuring outcomes ensuring feedback is received and actioned from stakeholders as well as participating in external review and scrutiny through national initiatives such as Investors in People, CEM Benchmarking to demonstrate value add in the delivery of services.

Our Focus

In Contributing Together For Our Member's Future, we aim to ensure we deliver a service that responds to stakeholder needs and demands and through identifying our Drivers for Change, reviewing and understanding feedback and identifying priorities in consideration of the changing landscape in which we operates, we will ensure service delivery through

- **Enhancing outcomes from employer engagement**
  Ensuring we relay to our employers how they have helped shape service delivery and where enhancements/changes have been made.
- **Building stronger partnerships for service development and delivery**
  Building on our current success of partnerships, we will continue to engage in the wider industry ensuring our presence and position is known on key issues.

- **Continuing to develop and build internal teams and operational structure to match the requirements for service delivery, at standards above the minimum**
  Embedding our People Development Framework ensuring resources are appropriately distributed with a focus on developing systems and working practices to support the progression of the Fund in reflection of the changing environment in which we operate.
- **Review and development of robust processes for financial and information management**
  Delivering on our fiduciary duty in the protection of assets and pension benefits for our members.
- **Continuing to develop and enhance communications with all stakeholders to ensure wide service utilisation**
  As a service provider we must be responsive to our customers' needs providing information at the right time and ensuring it is accessible to all. Through developing opportunities to engage with our customers and for them to feedback on our performance in this area, we can better understand our customer needs and shape our future service delivery.
- **Initiatives to recognise performance and achievements**
  People are our greatest asset and this year the Fund is focussed on building our People Development Strategy which aims to recognise and support individual achievement which contributes to the overall success of the Fund. This year we will build on the success of our graduate and trainee program with the aim of developing the pension professionals of the future.
- **Ongoing investment in systems and tools to enhance operational efficiencies**
  The West Midlands Pension Fund continues to grow both in membership and employers and our ability to maintain a high service delivery will be supported by the efficiency we create in our systems through automation of processes and bulk data management. We will continue to build on this program of work identifying ongoing opportunities to streamline processes which assist our stakeholders in their engagement with the Fund.
- **Continue to engage across our local footprint and the wider LGP**
  Being a Fund which represents the whole of the West Midlands we will continue to invite representatives from across the region to participate in our discussion and decision making ensuring local viewpoints are taken on board in the shaping of national policy.
- **Ongoing programme of data improvement**
  Through our employer engagement roadmap and the enhancement of our systems and processes (including monthly returns), we will continue to build on the quality of data we receive and manage supported by the adoption of our Data Management Strategy.

- **Continued support to develop people and skills**
  We will continue to develop our people to achieve their personal and professional success ensuring they develop and remain an asset to the Fund supporting the high service delivery to our stakeholders.
- **Joined-up working across specialist service areas**
  Recognising the value add from our external partners and the efficiencies to be generated through collaborative working, we will seek opportunities to share knowledge and develop our wider understanding in the review and improvement of our services.
- **Responsible employer, culture of social responsibility and champion to make a difference**
  Recognising we have a social, ethical and governance responsibility in the management of assets, as an employer and as a public body, we will continue to champion change and support our people, our members and employers.

Resources

Senior Management Team

Rachel Brothwood
Director of Pensions

Jill Davys
Assistant Director Investments & Finance

Simon Taylor
Head of Pensions

Rachel Howe
Head of Governance and Corporate Services

Amy Regler
Head of Operations

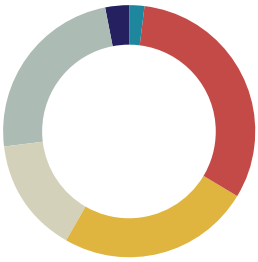
Darshan Singh
Head of Finance

Tom Davies
Head of Investments

Full-Time Employment

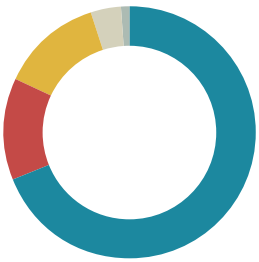
Gender Balance of the Fund

Female	75.4%
Male	24.6%



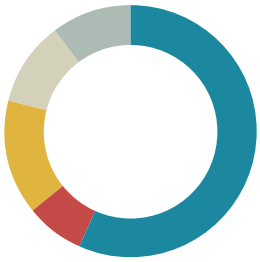
Age

20 and under	2%
21 – 30	32%
31 – 40	25%
41 – 50	15%
51 – 60	24%
61 and over	3%



Ethnicity

White	69%
Asian	13%
Not stated	13%
Mixed	4%
Black	1%



Length of Service

Less than 5 years	89
5 years - 10 years	12
More than 10 years	23
More than 20 years	17
More than 30 years	16

People

140*
FTE officers

69%*
hold a qualification directly relevant to their role

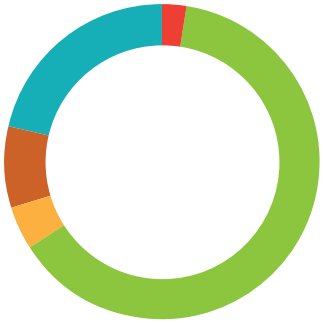
18.9*
years average service with the Fund

31.6*
average hours training provided per employee

*As at 31 December 2019

Finance - Operating Budget

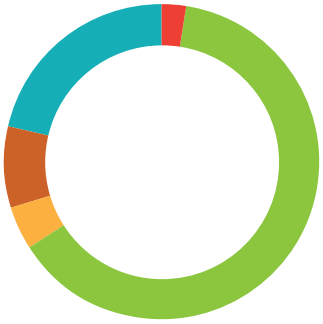
Budget 2019/20



People
Support Services
Equipment
Advisors
Investment Management Costs

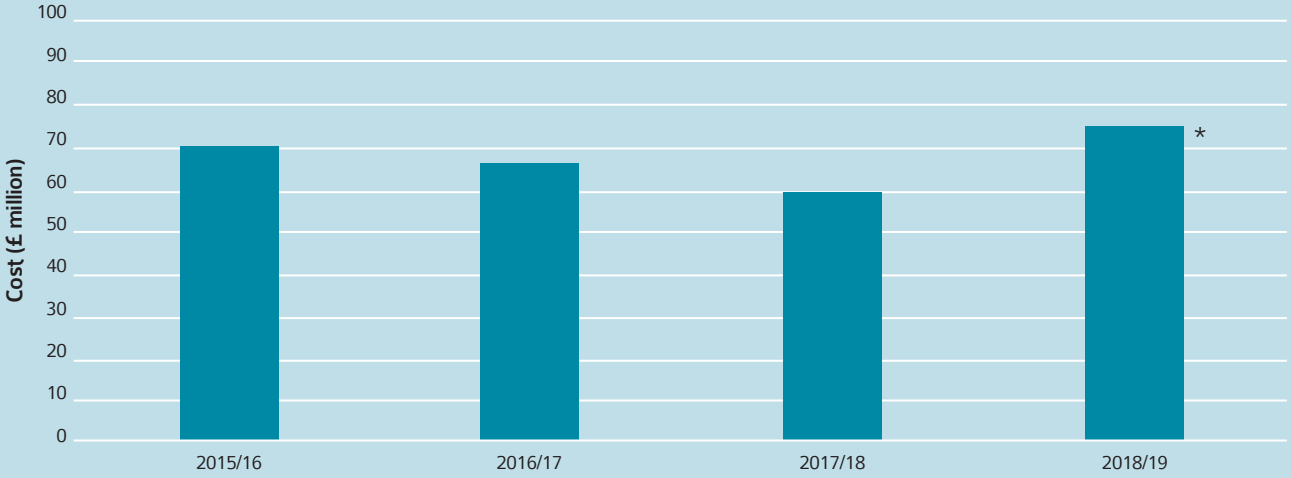
Total Operating Budget
£81.8 million

Budget 2020/21

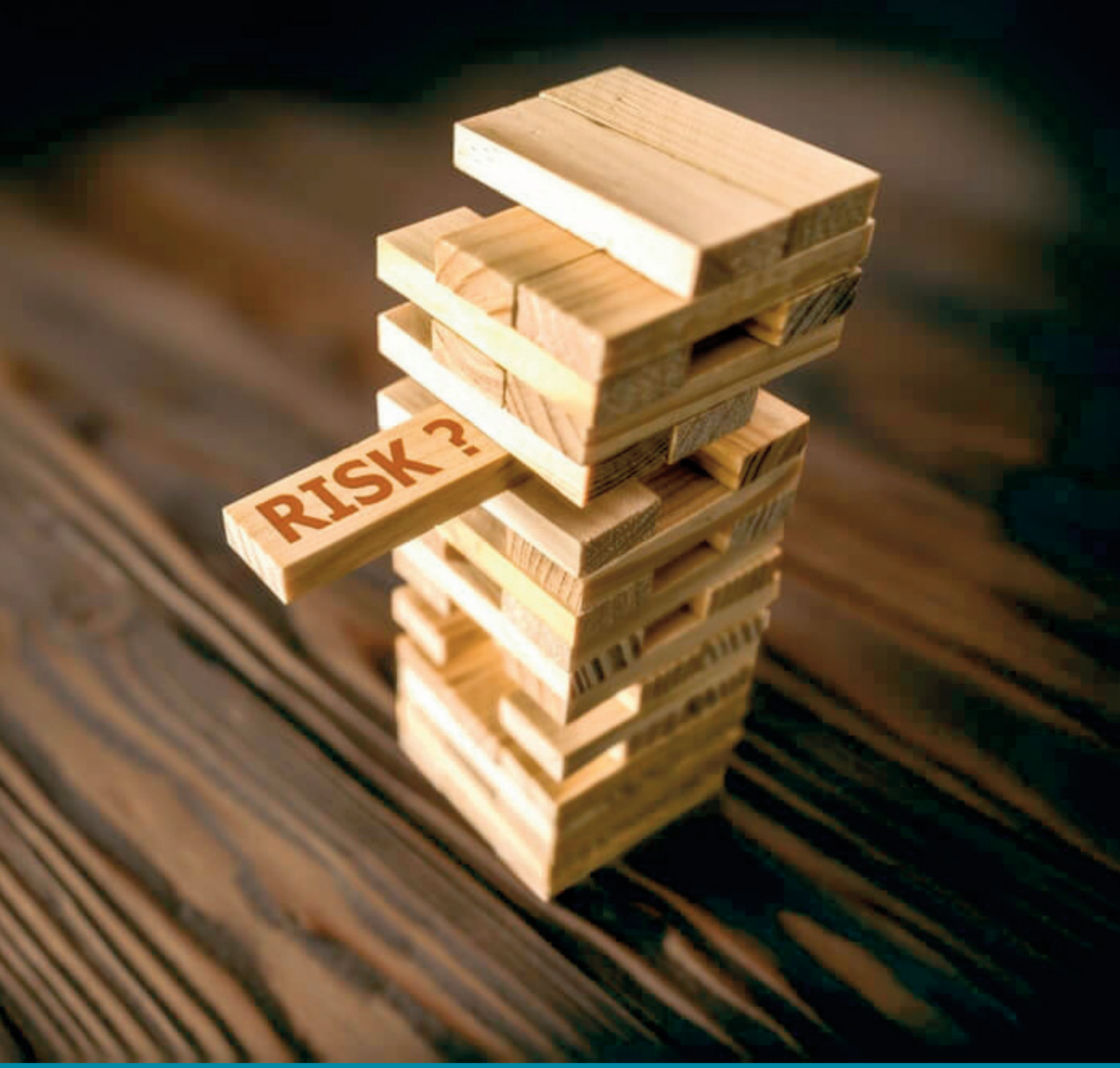


Total Operating Budget
tbc

Investment Management Costs



*Using new CTI templates



Risk Management

The three lines of defence model is used to demonstrate the relationship between the different functions within an organisation and an organisations approach to assurance, managing risk and controls.

The first line of defence are those functions that operate controls in order to mitigate risks so that the organisation can achieve its objectives. The second line includes internal monitoring and assurance functions that identify risks and issues to assess the effectiveness of controls. The third line of defence is independent assurance such as internal/ external audit, awards and accreditations.

To illustrate how the Three Lines of Defence model works for the Fund we have used the strapline 'You, We and Achieve'. 'You', the first line of defence represents the Fund's people; 'We', the second line represents the Fund's assurance functions and 'Achieve' represents independent external assurance and recognition achieved by the Fund.

To demonstrate this further we have broken down each of the three lines to illustrate in more detail what each line represents to the Fund.

You
The First Line of Defence

Fund employee's completing day-to-day activities and processes to achieve objectives, working with the second line of defence to continally improve controls.

- Officers – undertaking day-to-day activities in accordance with exisiting controls and approved policies and procedures to achieve targets and objectives.
- Managers and Sub-Committees – responsible for ensuring adequate controls are in place, implementing new controls, supervision, checking and review to enable the Fund to achieve its objectives.
- Senior Management Team, Pensions Board and Pensions Committee, responsible for setting objectives and approval of policies, procedures and internal control.

We
The Second Line of Defence

Governance and oversight functions providing assurance over exisiting controls and working with the First Line of Defence to continually improve and strengthen controls.

- Policy review framework ensuring regular review and updating of key policies and procedures.
- Risk registers and key performance indicators, highlighting areas of concern that could prevent the Fund from achieving its objectives.
- Governance and assurance, providing assessment of internal controls, working alongside the first line of defence to address concerns, identify improvements and strengthen controls.

Achieve
The Third Line of Defence

Our internal and external assurance functions together with independent accreditations and external assessments, demonstrating the effectiveness of the Fund's controls.

- Statutory policies and procedures as defined by the law and external regulators such as the Local Government Association, Scheme Advisory Board and The Pensions Regulator.
- Accreditations and awards such as Customer Service Excellence and Investors in People etc, including external reviews commissioned by the Fund.
- Independent reviews such as Internal Audit who review exisiting controls and make recommendations which are implemented by The First Line of Defence to further improve and strengthen controls.

Risk Management

The Fund's key risks identified as part of the risk management process, together with actions to mitigate them, are detailed in the table below.

O - Operational R - Regulatory
F - Financial Rep - Reputational

Theme	Risk	Relevant strategy
Operational	1 Resourcing and retention 2 Capacity to deliver services 3 High volume of service change and development with reliance on key service providers 4 Loss of key knowledge and skills 5 Increasing diversity in Fund members and employers	Noting the challenge across the LGPS to secure highly-skilled individuals across all service areas, the Fund is responding to that challenge through its people development strategy and structured training program. Having the right people with the right skills, knowledge and behaviour is fundamental to the work of the Fund. Recognising the challenge across the LGPS to recruit the people with a good fit of knowledge and skills, it is important to the ongoing success of the Fund that it is able to offer attractive opportunities and development in the context of a challenging and changing environment. Local demand for pension and finance/investment resource continues to create recruitment challenges. Ensuring people are confident in their roles leads to improved efficiency and productivity in working practice and promotes an inclusive environment where collectively and individually our team members contribute to the success of the Fund, as well as finding new ways to achieve personal development and job satisfaction. The Fund's own training policy and appraisal programme supports building experience, skills and professional qualifications. The Fund works with its providers to shape and develop their services ensuring they are fit for purpose in responding to change. Through effective horizon scanning, the Fund is able to identify and prioritise key service developments utilising expertise built both in house and with our partners, to ensure effective monitoring of controls and ensure projects are managed to deliver successful outcomes.
Financial	6 Adequate monitoring of funding strategy and employer covenant strength 7 Volatility in investment markets (including climate risk) 8 Ongoing development and delivery of investment pooling	The Fund has a diversified investment portfolio across geographical and sector investments and monitors employer covenant strength and funding development to enable early identification of potential strains on contribution rates. The Fund aims to ensure its investment portfolio, funding strategy and employer covenant framework are resilient to climate-related risks over the short, medium and long term. This includes the risk of failing to identify climate-related investment opportunities. For an effective first line of defence, the Fund integrates climate change into investment processes including selection and due diligence of assets. The aim is to decarbonise the portfolio through purposeful stewardship. The Fund incorporates climate risk identification and analysis into its covenant and funding processes. This is monitored and used to inform strategy reviews over the medium and longer term. In collaboration with partner funds, the Fund has developed transition planning and an assurance framework, working collaboratively with LGPS Central Limited to monitor the delivery of asset pooling.

Theme	Risk	Relevant strategy
Regulatory	9 Regulatory change and its currently unknown implications 10 Greater oversight from governing bodies with, as yet, unknown reporting requirements	The Fund keeps abreast of developments, participating in consultation and calls for evidence and collaborations with other LGPS funds. A number of regulatory changes were made and consultations issued during 2018/19, impacting scheme benefits and terms for employer participation and asset pooling. Arrangements and guidance for New Fair Deal, employer exit, asset pooling and member exit provisions (the long-awaited £95k cap), together with benefit changes from the cost management process could, as details emerge, materially impact Fund administration and implementation of investment strategy. Following an initial review in 2015 of the role of the administering authority for the LGPS and how this could be distinguished from a local authority in its role as scheme employer, the Scheme Advisory Board for England and Wales announced a follow on review as part of its 2018/19 work programme. In October 2018 the Board clarified that the follow-on review, developing options for change, was intended to help and assist with the management of potential conflicts of interest between the pension fund and the local authority whilst retaining local democratic accountability. The options under consideration seek to improve governance by increasing the degree of separation between the scheme manager function and host authority. The Board is expected to consult widely with a range of stakeholders ahead of considering recommendations for change and the Fund is well-placed to participate in those consultations helping to shape the future of the LGPS.
Reputational	11 Ability to respond to our customers' changing demands in the way they engage	The Fund continues to grow as an organisation, not just in member and employer numbers but also in the diversity of its customer base. With increasing demands for services, together with evolving preferences and expectations on access, working practices and approach will continue to evolve to support a growing range of channels.

Appendix - Links to Useful Documents

- Annual Reports
- Governance Compliance Statement
- Customer Engagement Strategy
- Communications Policy Statement
- Pensions Administration Strategy
- Employers - Risk Management Framework
- Funding Strategy Statement
- 2016 Valuation Report
- Investment Strategy Statement
- Responsible Investment Framework
- Climate Change Framework and Strategy

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WV1 1XP

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www.wmpfonline.com
www.wmpfonline.com/pensionsportal

ITA

Further to the enactment of the The Local Government Pension Scheme (West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund Merger) Regulations 2019, the West Midlands Integrated Transport Authority Pension Fund (WMITAPF) is now managed and administered by the City of Wolverhampton Council having been transferred from West Midlands Combined Authority by virtue of the above regulations. WMITAPF has 5,000 members and assets of £0.5billion.

The WMITAPF is a closed scheme, meaning that no new members are being admitted, but a number of active members continue to build up their pension benefits.

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Appendix B

Corporate Priority	Frequency	Description	Target	Lead Officer	End of Quarter 1 Performance	End of Quarter 2 Performance	Trend	End of Quarter 3 Performance	Trend
Customer Engagement and Communication	REFUNDS								
	M	Notify member of Refund within 10 days of receiving required information	90%	Head of Operations	95.29%	96.66%	↑	93.44%	↓
		Refund payments processed within 5 days of receiving required information	90%		99.86%	99.89%	→	99.25%	↓
	RETIREMENTS								
	M	Notification of Estimated Benefits within 15 days of retirement date	90%	Head of Operations	83.58%	93.33%	↑	91.01%	↓
		Notification of the actual benefits within 5 days of receiving member option form	90%		90.08%	99.66%	↑	98.46%	↓
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		98.78%	98.45%	↓	95.11%	↓
	DEFERRED RETIREMENTS								
	M	Issue quote letter within 30 days of the members eligible payment date or receipt of request from member	90%	Head of Operations	95.10%	94.80%	↓	95.19%	↑
		Notification of the actual benefits within 5 days of receiving member option form	90%		97.23%	98.17%	↑	99.11%	↑
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		96.51%	96.85%	↑	96.03%	↓
	TRANSFERS IN								
	M	Transfer in quotations processed within 10 days of receiving all the required information	90%	Head of Operations	94.92%	99.15%	↑	100.00%	↑
		Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		94.00%	100.00%	↑	100.00%	→
	TRANSFERS OUT								
	M	Transfer out quotations processed within 20 days of receiving required information	90%	Head of Operations	99.12%	99.63%	↑	99.58%	↓
		Transfer out payments processed within 20 days of receiving required information	90%		98.53%	100.00%	↑	98.25%	↓
	DEATHS								
	M	Acknowledgement of a death within 5 days of receiving the notification.	90%	Head of Operations	86.97%	97.14%	↑	97.59%	↑
		Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		98.26%	100.00%	↑	100.00%	→
		Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		100.00%	100.00%	→	100.00%	→
	JOINERS								
	M	Membership record to be created within one month of receiving information from employer	95%	Head of Governance	100.00%	100.00%	→	100.00%	→
	EMPLOYER AND MEMBER SERVICE - CALLS								
	M	Calls received to the customer helpline to be answered.	85%	Head of Pensions	79.61%	83.33%	↑	88.69%	↑
	M	Calls received to the employer helpline to be answered.	85%	Head of Pensions	98.17%	96.54%	↓	97.56%	↑
Customer Engagement and Communication	CUSTOMER SATISFACTION/SURVEY								
	M	Customer satisfaction	90%	Head of Pensions	100.00%	100.00%	→	100.00%	→
	Q	Web Portal Registrations	Target 90000	Head of Pensions	81410	86024	↑	90699	↑
	AVAILABILITY OF ONLINE SERVICES FOR MEMBERS								
	M	Pensions Portal, Employer Portal and the external website to be available for 95% of total working hours.	95%	Head of Operations	99.41%	98.50%	↓	99.82%	↑
	COMPLAINTS MONITORING - MEMBERS								
	M	All complaints to be responded to within 15 working days of receipt	15 days	Head of Pensions	92.59%	100.00%	↑	100.00%	→
	M	No of complaints to be less than 1% of total membership	<1%	Head of Pensions	54	45	↓	35	↓
	COMPLAINTS MONITORING - EMPLOYERS								
	M	All complaints to be responded to within 15 working days of receipt	15 days	Head of Pensions	52.63%	100.00%	↑	100.00%	→
	M	No of complaints to reduce year on year		Head of Pensions	19	2	↓	3	↑
Governance and Risk	EFFECTIVE DECISION MAKING								
	6M	Training hours of Committee and Pension Board		Head of Governance	N/A	100.00%	n/a	100.00%	→
	6M	Attendance rate of committee and pension board		Head of Governance	N/A	76.67%	n/a	76.67%	→
	INFORMATION GOVERNANCE								
	Q	Statutory response timeliness	100%	Head of Governance	95.65%	91.30%	↓	89.00%	↓
Strategic Asset Allocation and Performance	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE								
	Q	**Main Fund** - Returns to be 0.5% above the benchmark (3 Yr. Rolling)	+/- 0.5%	Assistant Director Investments and Finance	-0.87%	-1.20%	↓	-1.50%	↓
	Q	**ITA Fund** - Returns to match the benchmark (3 Yr. Rolling)	+ 0	Assistant Director Investments and Finance	-0.12%	0.00%	↑	0.20%	↑
Data Management	DATA QUALITY								
	M	Common data Main Fund	99%>	Head of Governance	96.59%	96.64%	↑	96.68%	→
		Common data ITA	99%>		98.08%	98.00%	↓	98.04%	→
		Scheme specific data Main Fund	95%>		LGPS Scheme specific requirements under national development	LGPS Scheme specific requirements under national development	LGPS Scheme specific requirements under national development	LGPS Scheme specific requirements under national development	LGPS Scheme specific requirements under national development
		Scheme specific data ITA	95%>						
	DATA IMPROVEMENT								
	A	ABS produced for 100% of active member records	100%	Head of Operations	85.00%	85.00%	→	95.00%	↑
		DBS produced for 100% of deferred member records	100%		87.20%	88.80%	↑	90.46%	↑
Financial management and cost transparency	CONTRIBUTIONS RECEIVED								
	M	**Main Fund** - Contributions received from employers and validated by accountancy statement	98%	Head of Finance	97.70%	98.40%	↑	95.55%	↓
		ITA Fund - Contributions received from employers and validated by accountancy statement	98%		99.93%	100.00%	↑	100%	→
	QUARTERLY ACCOUNTS								
	Q	Days taken to prepare quarterly accounts (Main Scheme)	30 days	Head of Finance	31	not available		49	↓

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Agenda Item No: 3

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 25 March 2020

Report title	Budget 2020-2021 and Financial Plan to 2024-2025	
Originating service	Pension Services	
Accountable employee	Darshan Singh Tel Email	Head of Finance 01902 55 2768 darshan.singh@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 rachel.brothwood@wolverhampton.gov.uk

Recommendation(s) for decision:

The Committee is recommended to approve:

1. The Operating Budget for 2020-2021
2. The Medium-Term financial plan for the period to 2024-2025.

1.0 Purpose

1.1 The purpose of this report is to seek the Committee's approval of the Operating Budget for 2020-2021 and the Medium-Term financial plan for the five years up to and including 2024-2025.

2.0 Background

2.1 The operating budget for 2020-2021 has been developed to reflect the objectives and priorities set out in the Fund's Service Plan, developed in response to growing service demand, changing regulation including standards of governance and ongoing service transformation through investment pooling and digital transformation. All existing budgets have been subject to thorough review for on-going relevance and adequacy and adjusted where appropriate.

2.2 LGPS regulations allow for the costs of administering the Funds to be charged to the Funds themselves and not directly to employers. The actuary makes provision in the Actuarial Valuation for such costs.

2.3 The budget and forecast figures quoted in this report whilst expressed in terms of cost per scheme member it is recognised that this is often a blunt but widely used measure of pension schemes cost-effectiveness.

2.4 Regular monitoring of the budget, including the preparation of a forecast outturn, will be undertaken throughout the year and reported to Pensions Committee at quarterly intervals.

3.0 Operating Budget 2020-2021

3.1 The recommended Operating Budget for 2020-2021 is £96.4 million. It should be noted that this budget includes the full value of investment management costs i.e. in addition to invoiced management fees, estimates have been made for fees being deducted at source by external managers.

3.2 Following the merger of the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) with the main Fund, all costs are now charged to WMPF, with appropriate amounts allocated to the newly created Admitted Body Separate Funds, established within WMPF.

3.3 Table 1 sets out the proposed budget analysed by expenditure type with comparison to the 2019-2020 budget.

Table 1 – Operating Budget 2019-2020

	2019-2020 Budget £000	**2020-2021 Budget £'000**	**Net growth/ (saving) Budget £'000**
Employees	7,358	8,975	1,617
Premises	302	300	(2)
Transport	37	38	1
Other Supplies and Services	430	437	7
Service Development Including -*Regulatory Compliance* *- Targeted service initiatives*	949	1,127 *320* *807*	178
Professional Fees	1,483	1,452	(31)
Communications and Computing	585	613	28
Support Services	634	723	89
Miscellaneous Income	(584)	(595)	(11)
Contingency for 2020/21 Pay award		91	91
Net Expenditure	**11,195**	**13,161**	**1,966**
External Investment Management Costs	73,836	77,970	4,134
LGPS Central Charges	4,669	4,949	280
Total	**89,700**	**96,080**	**6,380**
		-	
Funded by:		-	
West Midlands Pension Fund	88,950	96,080	**6,380**
West Midlands ITA Pension Fund	750	0	0
Net Budget	**89,700**	**96,080**	**6,380**

3.4 The main reasons for the net increase in the operating budget are:

a) Increased staffing structure to reflect demand for face-to face-member services, support implementation of the Fund's revised investment and risk strategies, additional pensions administration roles to support high volumes of processing and data cleansing work, building capacity for succession planning, together with support to assist with the delivery of the programme of service development initiatives identified. This has been developed following a review of requirements in response to service benchmarking and emerging regulatory change, this element of the budget will see an increase of £1.6m (around half of which incorporates allowances for pay increments and a 2% national pay awards). Increases in computing and support services largely reflect increasing employee numbers.

Given the ongoing negotiations surrounding the 2020-2021 pay deal, in order to be prudent, it is proposed that a pay award contingency totalling £91k is held which would allow for a further 1% pay award should this be agreed. This is in line with the approach taken by the City of Wolverhampton Council.

b) Service development has been considered both in the context of work required to meet the demand of regulatory changes (including allowance to complete GMP reconciliation work and review the implications of the McCloud ruling and remedy for the LGPS) and identified service improvement initiatives, focused on continuing to improve information management tools and ongoing support for a number of National LGPS Frameworks to ensure the Fund is able to operate and access relevant supplier services as efficiently as possible.

c) A net decrease in professional fees for 2020-2021 (£31,000) is largely due to reduced actuarial and covenant fees reflecting that 2020/21 is not a valuation year. Allowance has incorporated for ongoing funding risk management discussions with employers, which have progressed during the 2019 actuarial valuation, together with ongoing covenant monitoring work.

d) Investment management costs can be difficult to forecast with a high level of dependency on the underlying value of assets under management and also changes to asset allocation mix e.g. moving to more expensive asset classes for risk management and investment return purposes. During 2019-2020 the Committee noted and approved at its meeting on 25 September 2019 an increase in the total budget to £89.7 million to reflect £7.9 million of increased investment cost disclosure on transition to new industry standard cost reporting templates. The projected increase in investment management fees for 2020/21 results from assumed growth in assets under management, together with known changes in investment management arrangements (and associated costs) and incorporating an allowance of £4 million for the cost of transition to new products launched by the LGPS Central pool. The Fund is in the process of collating annual investment data from all its investment managers for the purpose of the 2019-2020 accounts and will use this, together with updated Fund cost share information from the LGPS Central pool, to update the fee projections for the Committee during the first quarter of monitoring. At time of writing it is recognised that current volatility in markets forecasting investment management fees is even more difficult and transition costs are highly uncertain. The Committee are asked to note these figures are highly indicative at this stage.

3.5 The Fund's staffing establishment stands at 184 employees (and includes interim support providing specialist skill and resource to support workload demands), together with the Fund's graduate and industrial placement programme.

4.0 Medium Term Financial Plan

4.1 Table 2 sets out the Fund's forecast operating budgets for the next five years. These generally assume a continuation of existing activities, plus service development initiatives, adjusted for inflation, pay awards and other anticipated changes.

4.2 Table 3 shows the forecast cost of administration, oversight and governance per member and the cost of investment management as a percentage of net assets which are measures of the Fund's cost efficiency over the medium term.

4.3 The forecasts reflect assumed growth of 4.6% per year in the value of the Fund's investment assets (inclusive of income), which links through to growth in investment management costs, being based largely on assets under management.

4.4 It is important to note that these operating budget forecasts assume that the Fund will continue to have growth in investments and costs of management and administration throughout the medium-term. Whilst savings in fees are expected to flow through from the roll out of LGPS Central Ltd as the Fund transitions assets, some of this may be offset by wider asset allocation changes. The forecasts for the later years can be considered as an indication of the level of costs based on the current service model. Where cost savings are made through transition to lower cost investment management arrangements available through the pool, these will be reflected within the investment cost forecasts.

4.5 Table 4 provides forecasts for all Fund activities from 2020-2021 to 2024-2025. There are some important caveats concerning these forecasts which are discussed at paragraph 4.6.

Table 2 – Forecast Operating Budgets 2019-2020 to 2024-2025

	2019-2020 Budget £'000	2020-2021 Forecast £'000	2021-2022 Forecast £'000	2022-2023 Forecast £'000	2023-2024 Forecast £'000	2024-2025 Forecast £'000
Employees	7,358	8,975	9,154	9,337	9,524	9,714
Premises	302	300	307	313	319	325
Transport	37	38	39	40	41	42
Other Supplies and Services	430	437	446	455	464	473
Service Development	949	1,127	1,127	1,127	1,127	1,127
Professional Fees	1,483	1,452	1,481	1,511	1,541	1,572
Communications and Computing	585	613	625	638	651	664
Support Services	634	723	737	752	767	782
Miscellaneous Income	(584)	(595)	(607)	(619)	(631)	(644)
Contingency for 2020/21 Pay award		91				
Net Expenditure	**11,195**	**13,161**	**13,309**	**13,554**	**13,803**	**14,055**
External Investment Management Costs	73,836	77,970	81,557	85,309	89,233	93,338
LGPS Central Charges	4,669	4,949	5,246	5,661	5,895	6,054
Total	**89,700**	**96,080**	**100,112**	**104,524**	**108,931**	**113,447**
Funded by:						
West Midlands Pension Fund	88,950	96,080	100,112	104,524	108,931	113,447
West Midlands ITA Pension Fund	750					
Net Budget	**89,700**	**96,080**	**100,112**	**104,524**	**108,931**	**113,447**

Table 3 – Cost per Scheme Member and Investment Costs as a Percentage of Net Assets (WMPF)

	2019-2020 Budget £000	2020-2021 Forecast £000	2021-2022 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000
Number of Members*	329,746	340,903	349,801	358,930	368,298	377,911
Total Administration, Oversight and Governance Costs (£000)	10,445	11,900	13,309	13,554	13,803	14,055
Total Administration, Oversight and Governance cost per Member (£)	**31.68**	**34.91**	**38.05**	**37.76**	**37.48**	**37.19**
Total Investment Management Costs (£000)	78,506	84,180	88,052	92,103	96,339	100,771
Investment Management Cost per Member (£)	238.08	246.93	251.72	256.60	261.58	266.65
Investment Management Costs as a Percentage of Forecast Net Assets	**0.52%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**

(*) Growth in membership is projected based on review of experience in recent years.

Table 4 – Medium Term Forecasts (WMPF)

	2019/20 Forecast £m	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**
Contributions Receivable**	(350)	(1,046)	(265)	(285)	(571)	(592)
Other Income	(16)	(17)	(17)	(17)	(17)	(16)
Benefits Payable	610	577	585	633	646	659
Other Payments				0		
Net Cost of Pensions	**244**	**(486)**	**303**	**331**	**58**	**51**
Investment Income	(219)	(221)	(224)	(226)	(228)	(230)
(Gains)/Losses in Value of Investments*	(720)	(746)	(773)	(800)	(829)	(859)
Return on Investments	**(939)**	**(984)**	**(1,039)**	**(1,026)**	**(1,057)**	**(1,089)**
Management Expenses	**90**	**96**	**100**	**105**	**109**	**113**
Net (Increase)/Decrease in the Fund	**(605)**	**(1,373)**	**(635)**	**(591)**	**(889)**	**(924)**
Opening Fund Balance	16,015	16,620	17,994	18,629	19,220	20,109
Closing Fund Balance	**16,620**	**17,994**	**18,629**	**19,220**	**20,109**	**21,033**

* Note: for 2018/19 to 2022/23, investment assets are forecast to grow by 4.6% per annum, with investment income growing at 1% per annum.

** Note: the contributions receivable figures for 2021/22 to 2022/23 reflect agreements with some individual employers to pay contributions in advance in 2020/21.

4.6 Table 5 provides the key assumptions used in preparing the medium-term forecasts.

Table 5 – Key Assumptions

	20/21	**21/22**	**22/23**	**23/24**	**24/25**
Pay Award	2.0%	2.0%	2.00%	2.0%	2.0%
Consumer Price Inflation (December of preceding year)	2.0%	2.0%	2.00%	2.0%	2.0%
Increase in Total Number of Members *	2.6%	2.6%	2.6%	2.6%	2.6%
Gross Growth in Investment Assets	4.6%	4.6%	4.6%	4.6%	4.6%

* Note: this projection is based on changes in membership numbers over the last five years.

4.7 The medium-term forecasts shown in Table 4 are subject to change, in particular because:

a) Contributions for 2023/24 to 2024/25 will be influenced by the 2022 actuarial valuation and could be significantly different from the figures shown here.
b) The local government sector has experienced, and will continue to experience for the foreseeable future, significant changes in the way it operates including ongoing cost pressures and service restructuring, and it is not yet possible to quantify the extent to which this will translate into a long-term reduction in the number of active scheme members.
c) Investment income and growth in asset values are very difficult to forecast and are likely to demonstrate much greater year-on-year volatility than shown here.
d) The impact of the transfer of funds to the LGPS Central, both in terms of growth and costs is estimated based on assumptions on future investment management costs and investment pool operational costs.

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 has no direct legal implications.

7.0 Equalities implications

7.1 This report has no direct equalities implications.

8.0 Environmental implications

8.1 This report has no direct environmental implications.

9.0 Human resources implications

9.1 This report has 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 Service Plan 2020-2025, Report to Pensions Committee, 25 March 2020

12.0 Schedule of appendices

12.1 None.

Agenda Item No: 4

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

25 March 2020

Report title	Accounting Policies 2019-2020	
Originating service	Pension Services	
Accountable employee	Darshan Singh Tel Email	Head of Finance 01902 55 2768 darshan.singh@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 rachel.brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Committee is recommended to approve:

1. The West Midlands Pension Fund accounting policies for the 2019-2020 financial year.

1.0 Purpose

1.1 The purpose of this report is to seek the Committee's approval of the accounting policies to be used in preparing the Funds' accounts for the 2019-2020 financial year.

2.0 Background

2.1 Local Government Pension Scheme (LGPS) Funds are required by law to produce an annual statement of accounts. In preparing these accounts, Funds must have regard to proper practice and to any guidance which has the effective standing of 'statutory guidance'. That guidance is 'The Code of Practice on Local Authority Accounting in the United Kingdom' ('the Code'), which is prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA) and updated annually.

2.2 CIPFA has issued the 2019-2020 Code and there are no changes to the Code which impact materially on the Pension Fund.

3.0 Financial implications

3.1 The accounting policies are a fundamental part of the Funds' financial governance frameworks.

3.2 There are no direct financial implications arising from this report.

4.0 Legal implications

4.1 This report contains no direct legal implications.

5.0 Equalities implications

5.1 This report has no direct equalities implications.

6.0 Environmental implications

6.1 This report has no direct environmental implications.

7.0 Human resources implications

7.1 The report has no direct human resources implications.

8.0 Corporate landlord implications

8.1 This report has no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 None.

10.0 Schedule of appendices

10.1 Appendix A: West Midlands Pension Fund Accounting Policies 2019-2020.

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Appendix A

West Midlands Pension Fund - Statement of Accounting Policies 2019-2020

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. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year-end (see note to the accounts).

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 2020, 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 accrual's 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 amounts not received by the end of the reporting period, where known to be due, have been accrued for in the accounts.

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

A Stock lending income is accounted for on a cash received 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 2020. 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 2020, 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 and IFRS 9 (see note 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 the appointed chartered surveyors, as at 31 March 2020. 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 specialist 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 2020.

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 2020.

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 accrual's 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 accrual's 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 at the time of preparing these accounts, an estimate based upon the market value of their 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 to the accounts).

p) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund currently has two appointed AVC providers, Prudential and Utmost Life. The Utmost Life arrangement follows a transfer from Equitable Life (the former provider) on 1 January 2020 and is closed to new active members. Prudential is therefore the only arrangement open to new AVC accounts.

AVC's 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(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note to the accounts).

Agenda Item No: 5

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

25 March 2020

Report title	External Audit Plan 2020 - 2021	
Originating service	Pensions Services	
Accountable employee	Darshan Singh Tel Email	Head of Finance 01902 55 2768 darshan.singh@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation(s) for decision:

The Committee is recommended to approve:

1. The management responses to questions from the external auditors, Grant Thornton LLP, as part of their audit planning.

2. Delegation of authority to the Chair of Pensions Committee to approve the final publication of the 2019-2020 Annual Report and Accounts following audit in July and approval of the draft Report by Committee in June 2020.

Recommendation for noting:

The Committee is asked to note:

1. The external audit plan for the 2019/2020 Annual Report and Accounts as prepared by Grant Thornton.

1.0 Purpose

1.1 The purpose of this report is to inform Committee members of the plan for the external audit of the Fund's Annual Report and Accounts for 2019-2020.

2.0 Background

2.1 The purpose of the Audit Plan is to direct and communicate the audit approach to the Pensions Committee. The Audit Plan considers the risks to the audit in forming the Audit Opinion and details the approach to addressing the key areas of the Fund's financial statements.

3.0 Audit of Accounts 2019-20

3.1 Two documents prepared by Grant Thornton are appended to this report:

- *The Audit Plan* – this sets out the scope and timing of Grant Thornton's proposed work on the external audit along with other relevant information.

- *Informing the Audit Risk Assessment* – this document sets out some of the potential areas of risk with regard to the Annual Report and Accounts. In accordance with auditing standards, Grant Thornton are required to formally seek the views of the Committee on these areas. The document provides management responses to a number of questions posed by the auditor and the Committee is invited to consider whether these responses are consistent with its own understanding and if it has any further comments to make on these matters.

3.2 *Informing the Audit Risk Assessment* considers areas of particular relevance to the external audit under five headings:
- Fraud Risk Assessment;
- Impact of Laws and Regulations;
- Going Concern Considerations;
- Estimate Considerations;
- Related Party Considerations.

3.3 The ultimate outcome of Grant Thornton's work will be an opinion on:
- The Fund's Annual Statement of Accounts;
- The Fund's Annual Report.

3.4 The audited Statement of Accounts, including the audit opinion, will be presented for Committee's formal approval in July ahead of the statutory deadline for publication by 31 July.

4.0 Financial implications

4.1 External audit of the Annual Report and Accounts is a fundamental part of the system of financial controls that governs the Fund's work. It provides independent assurance to stakeholders that the financial statements provide a true and fair view of the Fund's

financial position and transactions for the period in question and that those statements have been prepared in accordance with generally accepted accounting practice.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equalities implications.

7.0 Environmental implications

7.1 This report contains no environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of Appendices

11.1 Appendix A: External Audit Plan for West Midlands Pension Fund

11.2 Appendix B: Informing the Audit Risk Assessment for West Midlands Pension Fund

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Grant Thornton

External Audit Plan

Year ending 31 March 2020

West Midlands Pension Fund
March 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Pension Fund ('the Pension Fund') for those charged with governance. For the purposes of our audit the City of Wolverhampton's Audit & Risk Committee is ultimately those charged with governance for the City Council's accounts which include the Pension Fund's accounts. We have, however, determined in line with *ISA 260 – Communicating with those charged with governance*, that given the Pensions Committee role in overseeing the publishing of the Pension Fund's Annual Report and financial statements it is the sub-group with whom we will communicate.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Midlands Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Pensions Committee of City of Wolverhampton Council).

The audit of the financial statements does not relieve management or the Pensions Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • The revenue recognition cycle contains fraudulent transactions (rebutted) • Management override of controls • The valuation of Level 3 investments is incorrect. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £140m (PY £110m) for the Pension Fund, which equates to approximately 0.9% of your prior period net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £7m (PY £5.5m).
Audit logistics	Our interim visits will take place between January and April and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £48,636 (PY: £44,010) for the Pension Fund, subject to the Pension Fund meeting our requirements set out on page 10.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider picture and political uncertainty

- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Fund until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists.

Governance

- tPR continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.
- Looking beyond 2019-20 the Scheme Advisory Board (SAB) has
  - published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators, and
  - is also consulting on Responsible Investment guidance to assist and help investment decision makers.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

Merger with West Midlands ITA Pension Fund

In late 2019, the merger between the Pension Fund and the West Midlands ITA Pension Fund was approved by Statutory instrument. All assets and liabilities relating to the ITA Pension Fund transferred to the Pension Fund effective 1 April 2019 with City of Wolverhampton Council becoming the Administering Authority for the combined Fund. WMPF will now be required to consolidate the ITA assets, liabilities and pension fund account transactions into its financial statements.

Our response

- We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.
- Covid-19 and lack of agreement between oil producing countries has recently unsettled financial markets. We will consider the impact on year end asset valuations as part of work on the financial statements.

- We will consider the impact of any data issues raised as part of the 2019 valuation process on the risks identified as part of our 2019/20 audit.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Section 151 officer and Fund Directors and is subject to PSAA agreement.

- We will consider the Fund's proposed accounting treatment and administration arrangements for the merger and determine that there are compliant with accounting standards and relevant legislation.
- We have been further engaged by the Fund to provide certain Agreed Upon Procedures in relation to the Unitisation of the ITA Fund between its constituent employers. Further details are provided on page 13.

3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Pension Fund, the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of the Pension Fund and local authorities, including City of Wolverhampton Council as the Administering Authority of West Midlands Pension Fund, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for West Midlands Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (Annual revaluation)	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£2.4 billion in the Fund's Balance Sheet at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value of these assets. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 December 2019 with reference to known movements in the intervening period and consider the reasonableness of any identified market movements. We will then complete testing on purchases and sales in the final quarter of the year and determine whether there remains a material untested market valuation movement, which will be subject to further audit procedures as required. • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert. • Engage the Firm's internal Actuary to provide assurance over the ITA Fund insurance buy-in.
Valuation of Directly Held Property (Level 3 Investment) (Annual revaluation)	The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£981 million as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from the investment manager • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpin the valuation. • where available review investment manager service auditor report on design effectiveness of internal controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

4. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The merger with West Midlands ITA Pension Fund is not appropriately accounted for.	As of 1 April 2019, the assets and liabilities relating to the West Midlands ITA Pension Fund are consolidated into the West Midlands Pension Fund and brought under the responsibility of City of Wolverhampton Council as administering authority. There is a risk that opening balances are not brought forward correctly, that the consolidation is not appropriately performed and that appropriate legislation is not complied with.	We will: • Test opening balances brought forward from the ITA and confirm consistency with audited financial statements; • Consider the appropriateness of the Fund's proposed consolidation process and any ringfencing arrangements; • As discussed at page 6, engage the Firm's internal Actuary to perform valuation processes on the ITA insurance buy in.
The impact of Covid-19 and disputes between oil producing countries causes a further significant deterioration in the value of global equities	As at March 2020, loss of investor confidence following the spread of the Covid-19 virus and the fall in global oil prices had caused a significant decrease in the value of global equities. Given the size of the Fund, we have historically audited 31 December asset values, along with Q4 purchases and sales with the aim of leaving a below material market movement in Q4. There is a risk that current market conditions mean that we are required to carry out further asset valuations testing as at 31 March which may increase the level of work we are required to perform.	We will: • Maintain regular dialogue with Fund staff in order to determine the likely close out position of the Fund as early as possible. • Front load our audit work to ensure that our market value reconciliation work is carried out early in the final accounts audit stage and samples selected as early as possible, giving us maximum time to complete the work. • Where possible for non-hard to value assets, perform testing at 31 March 2020 to reduce sample sizes and overall work required.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other matters

Other work

The Pension Fund is administered by City of Wolverhampton Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- Furthermore, we have been engaged by management to perform certain Agreed Upon Procedures relating to the Fund's unitisation process of the West Midlands ITA Pension Fund. We will issue our report on this work by 31 March 2020 and will update the Committee at the June meting.
- Further consideration of this work from an ethical standpoint is detailed in the Independence & Ethics section.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

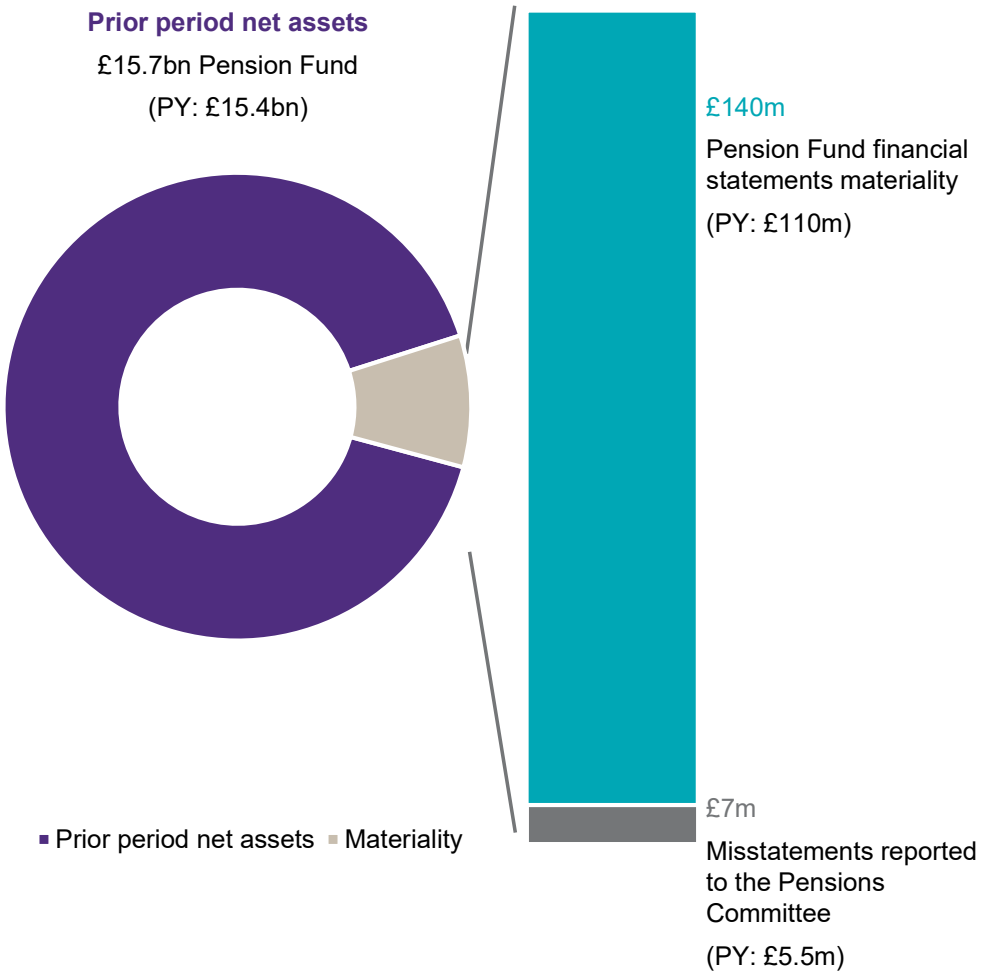
We have determined financial statement materiality at the planning stage of our audit to be £140m (PY £110m) for the Pension Fund, which equates to approximately 0.9% of your prior period net assets. We believe that the benchmark based on a proportion of the net assets of the Pension Fund for the financial year remains appropriate. In the prior year we used the same benchmark. We have not determined a separate materiality in respect of Pension Fund account transactions, as we believe that the current materiality levels will ensure that sufficient testing is carried out to provide assurance on these balances.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

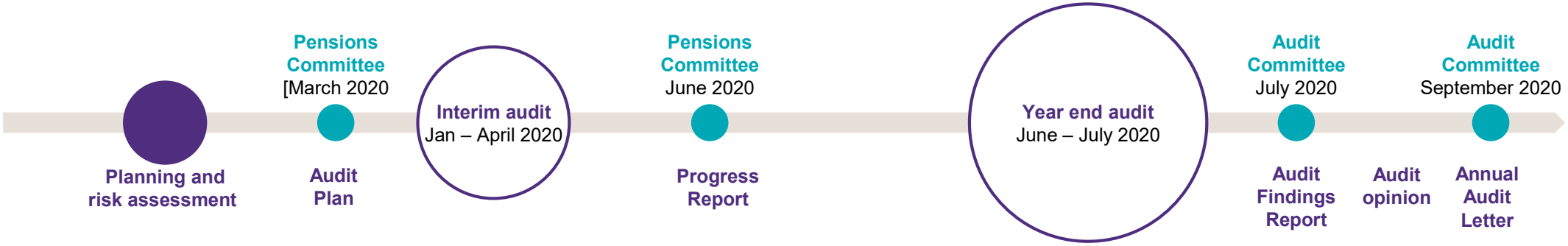
Matters we will report to the Pensions Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £7m (PY £5.5m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pension Committee to assist it in fulfilling its governance responsibilities.



7. Audit logistics & team



Grant Patterson, Key Audit Partner

As your engagement lead, Grant will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Authority and Pension Fund and take overall responsibility for delivering high quality audits, which meet the highest professional standards while adding value.

David Rowley, Audit Manager

As the engagement manager, David is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands Pension Fund. He will be on hand to answer any queries, whist ensuring an efficient audit process.

Kiran Hussain, Audit Incharge

Kiran will work with relevant officers and our on-site team to ensure the smooth planning and delivery of the audits. She will oversee the on-site team and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

8. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Pension Fund Audit Scale Fees	£48,618	£37,436	£37,436
Fee Variations	£5,000	£6,574	£11,200 (see page 12)
Provision of IAS 19 assurances to scheme employer auditors (19/20 figure estimated based on prior periods plus additional work in respect of triennial valuation)	£8,000	£8,000	£9,250
Review of unitisation of ITA fund	£0	£0	£5,000
Total audit fees (excluding VAT)	**£61,618**	**£52,010**	**£62,886**

Assumptions:
In setting the above fees, we have assumed that the Pension Fund will:
- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	37,436	
Raising the bar	£3,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	£2,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Directly held property – work of experts	£2,750	We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin directly held property valuations.
Insurance buy-in valuation	£1,400	As a result of the merger, the Fund now holds on its Net Asset Statement an insurance buy-in relating to the West Midlands ITA Pension Fund. Due to the complexity of the valuation of this asset we will engage our internal expert to provide assurance in this area.
IFRS 16	£800	From 1 April 2020, all public sector entities (including LGPS Funds) will be required to adopt IFRS 16 and, as such, specific disclosures will be required in the 19/20 financial statements. Although we expect the impact on the Fund to be minimal we are required to perform specific procedures to ensure completeness of the Fund's disclosures and assess the appropriateness of controls in place to ensure compliance with the standard in future.
Revised scale fee (to be approved by PSAA)	**£48,636**	

9. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Provision of IAS 19 Assurances to Scheme Employer auditors (including additional work in relation to the Triennial valuation)	£9,250	Self-interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,250 in comparison to the total fee for the audit of £48,636k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Review of unitisation of ITA Fund	£5,000	None identified	This is a low fee in comparison to the overall fee and Firm turnover, it is a fixed fee and is not recurring. There are no indicators of other threats to independence arising from this work.
Non-audit related:			
None identified			
TOTAL ADDITIONAL FEES	£14,250		

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Completion of the above services is subject to Pensions Committee approval. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendices

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

Appendix B: Interim progress report

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also considered internal audit's work on the Fund's key financial systems to date.	Overall, we considered the work of internal audit to date, to help inform our understanding of the Fund's control environment and inform our audit strategy for our accounts and value for money work. We have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment. We have identified some findings around the Fund's cash reconciliation and Treasury Management arrangements which we have arranged to follow up with Fund staff in our March interim visit.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility	Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements.
Review of information technology controls	We are in the process of performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We intend to coordinate this work with colleagues on the City of Wolverhampton Council audit team to achieve maximum efficiency. We will use the reports provided by your service organisations to inform and respond to any identified control risks that would impact on our responsibilities.	As at early March 2020, this work remains outstanding.

Appendix B: Interim progress report (continued)

	Work performed	Conclusions and recommendations
Walkthrough testing	We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Whilst we are satisfied that, overall, Internal controls have been implemented by the Fund in accordance with our documented understanding, we note a non material but reportable balance of unreconciled cash (£48m as at January 2020).	Our work has not identified any material weaknesses which impact on our audit approach. We are in the process of following up the issues around unreconciled cash with Fund staff.
Journal entry controls	We plan to review the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	We will undertake detailed testing on journal transactions posted during the year by extracting 'unusual' entries for further review. Initial discussions with finance staff have been held around the control environment; no issues have arisen from this initial risk assessment.
IAS 19 assurance	We have arranged with Fund staff to begin our work on IAS 19 assurance in April .	Following regulatory guidance, IAS 19 assurance requires us to complete all testing on the Fund before we are able to provide assurance to auditors of member employers. Therefore, timely completion of audit procedures is crucial at the final accounts stage as this will also potentially have a subsequent effect on timings of accounts sign off for member employers.
Early substantive testing	Early substantive testing is broken down into 3 core areas, which are documented overleaf.	See overleaf.

Appendix B: Interim progress report (continued)

	Work performed	Conclusions and recommendations
Investments	We have reconciled the closing position from the previous year to the position as at 31 December 2019 using management accounts reports provided by WMPF staff, thereby gaining assurance over opening balances. We have also used this information to commence substantive testing on purchases and sales of investment assets to month 9. Overall we have 182 confirmations outstanding out of 262 Fund Managers. For sampling purposes we have currently only been able to gain assurance over the valuation of 8 items. There are 4 items currently outstanding with the investments team on the purchases and sales testing.	We have completed the majority of our work on purchases and sales to period 9 with no issues noted. A significant number of fund manager responses for Investment asset testing remain outstanding. **We recommend that the Fund works to ensure that all Investment Manager confirmations are received by 30 June 2020.**
Benefits payable	We aim to complete analytical procedures and substantive testing on benefits payable to period 12 in our March interim visit and have made necessary arrangements with Fund staff to complete this work.	Work to be completed in March.
Scheme contributions	We aim to complete analytical procedures and substantive testing on scheme contributions to period 11 during our March interim visit and have made necessary arrangements with Fund staff to complete this work. As previously referred to, during planning procedures we identified a balance of £48m in unreconciled cash, relating predominantly to contributions receivable (in addition to smaller balances of transfers in and other related transactions). We will follow this up with Fund staff during our March interim visit.	Work to be completed in March.

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Grant Thornton
An instinct for growth™

Informing the audit risk assessment for West Midlands Pension Fund 2019/20

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between external auditors and West Midlands Pension Fund's Pension Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Risk Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Pension Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Pension Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Pension Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Pension Committee and supports the Pension Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Fund's management.

The Pension Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	Reflecting the merger of the WMITA Fund with the WMPF Fund in the 19/20 financial statements will be of interest but not necessarily significant impact considering the relative sizes of the two Funds.
2. Have you considered the appropriateness of the accounting policies adopted by the Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Management has considered the appropriateness of the accounting policies adopted by the Fund and prepared a paper to confirm so for the Pensions Committee meeting in March 2020. There have been no events or transactions arising during the year which are expected to result in the Fund changing an accounting policy or adopting a new accounting policy.
3. Is there any use of financial instruments, including derivatives?	During 2019/20, the Fund has made use of both Forward Foreign currency and Futures derivative contracts.
4. Are you aware of any significant transaction outside the normal course of business?	The combination of the WMITA Fund and WMPF Fund aside, management is not aware of any significant transaction outside of the normal course of business.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Management is not aware of any such circumstances.

General Enquiries of Management

Question	Management response
6. Are you aware of any guarantee contracts?	WMPF does not itself act as guarantor for any contracts, however it does have in place contingent assets which exist upon the occurrence of one or more specified future events, at the bequest of the Fund. Examples of these contingent assets include a known guarantor (which agrees to cover all liabilities or a proportion of liabilities), security over other assets (for instance, property or securities), bonds, and escrow accounts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	There are no loss contingencies existing.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Legal advisors – Eversheds for employer admissions. Eversheds were appointed under the LGPS Frameworks to carry out this work. Investment matters with Squire Patton Boggs, (utilised through the Framework) Other advisors include Hogan Lovells on transition pieces. No outstanding litigations from previous year.
9. Have any of the Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No such items have been reported that would lead to an impact on the Fund's financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Fund's appointed advisers are listed in its Annual Report along with a description of the nature of their relationship to the Fund.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Pension Committee and management. Management, with the oversight of the Pension Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Pension Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As West Midland Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Pension Committee oversees the above processes. We are also required to make inquiries of both management and the Pension Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Fund's management.

Fraud risk assessment

Question	Management response
1. Have the Fund assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Fund's risk management processes link to financial reporting?	The Pension Fund accounts are consolidated into the accounts of City of Wolverhampton Council. Fraud risks are identified by the City's Internal Audit function in their audit plan covering the Pension Fund. All fundamental systems which feed the City's Statement of Accounts including the Pension Fund accounts are reviewed annually to ensure that controls in place are satisfactory. The Statement of Pension Fund Accounts is also subject to an analytical review each year which considers any significant or material changes to figures to confirm that the accounts are presented without such misstatements.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Fund as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	During the year the Fund identified 1 instance of attempted fraud against a pension fund member which resulted in one month's pension payment being paid to an incorrect bank account (circa £300), and 1 instance of actual fraud whereby a family member failed to notify the Fund of a pensioner's death in order to continue receiving pension payments (circa £26,000 over 2 years). Both instances were managed through the Fund's safeguarding policy and fraud risk policy.

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Fund where fraud is more likely to occur?	No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
5. What processes do the Fund have in place to identify and respond to risks of fraud?	Specific fraud risks are identified in the internal audit planning process noted above; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Pension Fund. This is done through the Anti - Fraud, Bribery and Corruption Policy, Whistle Blowing Policy and supporting training. In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption. In relation to pensioner payroll, the Fund undertakes monthly mortality screening with a third party provider and also participates in the biennial National Fraud Initiative scheme. Any queries identified are investigated and resolved. Investment Managers and their Administrators send internal control reports and these are reviewed by the pension team and any exceptions reported on. Internal Audit also review the internal control reports as part of their annual audit cycle. Pension Committee meetings monitor the Fund's investment managers and business risk including fraud.

Fraud risk assessment

Question	Management response
6. How would you assess the overall control environment for the Fund, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	The Fund has adopted an internal controls framework (currently undergoing manual review) and a risk management process in the development of the Fund's Strategic risk register. Copies provided.
7. Are there any areas where there is potential for misreporting?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.

Fraud risk assessment

Question	Management response
8. How do the Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	The Pension Fund follows the Council's Whistle Blowing policy and guidelines. The Whistle Blowing policy is available to the public and all contractors. The terms and conditions within Pension Fund contracts also include ethical considerations for contractors and suppliers. The vision and values for the Pension Fund identify the need for staff to act with integrity in all undertakings. Staff are encouraged to report their concerns about fraud as set out in the speaking up about wrongdoing (Whistle Blowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy. Management are not aware of any significant issues being reported.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	High risk posts are identified as those with access to financial systems and with responsibility for authorising payments. A staff structure chart can be provided on request.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	None identified.

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Pension Committee? How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The Internal Audit Risk Based Plan is approved by the Audit Committee of City of Wolverhampton Council and the Pensions Committee in relation to pensions issues before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to the Audit Committee. The Pensions Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, the Audit Committee receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes. The Pension Fund members are informed at their meetings of any pension based issues.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Management are not aware of any whistle blowing complaints in relation to the Pension Fund.

Fraud risk assessment

Question	Management response
13. Have any reports been made under the Bribery Act?	No reports have been made under the Bribery Act.

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Pensions Committee, is responsible for ensuring that the Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Pensions Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? 2. What arrangements does the Fund have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Fund's regulatory environment that may have a significant impact on the Fund's financial statements?	The Pension Fund has a Head of Governance and Head of Finance who provide assurance that all relevant laws and regulations have been complied with. The Director of Pensions at the West Midlands Pension Fund provides expertise and advice for Pension Fund requirements. The Pension Fund is obliged to follow the Local Government Pensions Scheme Regulations. The Pensions Committee receive reports of compliance from officers, who are suitably qualified. Any non compliance would be reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues. These would cover the pension fund as applicable. Each year the Pensions Fund's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Pension Fund has a robust corporate governance and risk management process in place which is based on approved polices and procedures.
2. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	The Fund "self reported" its production of annual benefit statements to the Pensions Regulator in September 2019 due to not producing 100% of statements by the statutory deadline of 31 August. A report was presented to Pensions Committee and Pensions Board confirming this action had been taken. Dialogue is still ongoing with the Regulator with no outcome known at this stage. However, the Fund has since reported to tPR its improvement on production from 89% when first reported to 95% by January 2020. Management do not expect any impact on the 2019/20 financial statements.

Impact of laws and regulations

Question	Management response
3. How is the Pension Committee provided with assurance that all relevant laws and regulations have been complied with?	The Pensions Committee receive reports of compliance from officers who are suitably qualified. Any non compliance would be reported to management and the Pensions Committee via Internal Audit reports.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	The Head of Finance is not aware of any actual or potential litigation or claims that would affect the financial statements.
5. What arrangements does the Fund have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Pensions Fund. Any potential liabilities would be highlighted each year in the Pensions Fund's Statement of Accounts and accounted for in accordance with accounting standards.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	Management is not aware of any such reports of non-compliance.

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Fund? What was the outcome of that assessment?	The Pension Fund is not a stand alone entity but sits under the City of Wolverhampton Council which acts as the Administering Authority for the Pension Fund and has statutory tax raising powers and stands behind the Pension Fund. In completing the statutory actuarial valuation, the Fund actuary will assess the assets and liabilities of the Pension Fund and will set contributions rates to ensure that the Fund is able to meet its long term liabilities. The Funding Strategy Statement sets out how the Fund will meet those liabilities. In preparing the financial statements, the Fund has regard to these assessments and will be able to confirm its status as a going concern. The Fund holds significant liquid and other assets when compared with required benefits payments and therefore there are no current concerns around going concern.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Fund's business plan and the financial information provided to the Fund throughout the year?	Yes.

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the business plan, financial forecasts and report on going concern?	The Fund reflects the expected impact of statutory change in its quarterly legal and compliance Committee reports and the impact is considered as part of the business planning process. The Fund is currently developing its 2020/25 Service/Business Plan where statute and policy changes are factored into the formulation of priorities and resource planning.
4. Have there been any significant issues raised with the Pensions Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	There have been no such issues raised with Pensions Committee during the year 19/20.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	The Fund holds significant liquid and other assets when compared with required benefits payments and therefore there are no current concerns around going concern.

Going concern considerations

Question	Management response
6. Does the West Midlands Pension Fund have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Fund's objectives? If not, what action is being taken to obtain those skills?	The City of Wolverhampton Council's internal audit function undertook a review of this area, the Fund was awarded a Satisfactory Assurance for this review.
7. Does the Fund have procedures in place to assess their ability to continue as a going concern?	An Actuarial Valuation is carried out every three years as at 31 March and, in the intervening years, the Actuary provides an annual update of the position since the date of the last formal Valuation.
8. Is management aware of the existence of events or conditions that may cast doubt on Fund's ability to continue as a going concern?	No such events or conditions have been identified.

Going concern considerations

Question	Management response
9. Are arrangements in place to report the going concern assessment to the Pensions Committee ?	Yes, the Pensions Committee consider a number of financial reports which provide them with assurance that the Pension Fund continues as a going concern. Pensions Committee will have access to all reports produced across the Pension Fund whether public or exempt.
How has the Pensions Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	The triennial pension fund valuation was carried out in 2016 and it provides an independent view as to the financial viability of the Fund.

Related Parties

Issue

Matters in relation to Related Parties

Pension funds are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Fund, or of any entity that is a related party of the Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Fund perspective but material from a related party viewpoint then the Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does the Fund have in place to identify, account for and disclose related party transactions and relationships ?	The Fund keeps a register of all Pension Committee and Pension Board member interests which it is required to publish on its website. The Fund has a compliance manual which outlines specific roles required to disclose personal interests covering senior managers and those in the investments and finance team. The Fund has a personal dealing policy for managing individual staff members' own investment interests to ensure there is no conflict with Fund investment strategy.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Pension Funds apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Pensions Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Management is not aware of any such transactions, events or conditions.
2. How is the Pensions Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Pensions Committee are assured via the annual external audit of the Pension Fund Statement of Accounts which is prepared using the arrangement for accounting estimates where appropriate.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Liability	The administering authority engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end capital statement to determine any significant fluctuations.	Custodian and Fund Manager Capital Statement		No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Contributions	If March values will not be readily available at the time of compiling the accounts then there maybe a degree of estimation involved in calculating month 12 contributions. Finance team would then estimate the month 12 contributions based on actual figures to the end of March 2020.	Management reconcile this estimate of contributions to the actuals received for month 12.	No	Monthly contributions are usually based on known values. Where month 12 figures are estimated the latest available information is used.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems to identified where goods have been received but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No
Property Valuations	Property is valued at fair value by property valuations experts. If March values will not be readily available at the time of compiling the accounts then there maybe a degree of estimation involved in the valuation.	December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end valuation to determine any significant fluctuations	Property valuer		No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Accruals are made in the year end financial statements but there have been no provisions for liabilities.				
Bad Debt Provision	There is currently no provision for bad debts in the financial statements.				

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	Reasonable estimates will be used to assess significant post balance sheet events unless actual numbers become available between year end and finalisation of the accounts for audit purposes.	Review financial systems to assess whether significant financial transactions or adjustments to valuations have taken place post the year end.	No		No

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Agenda Item No: 6

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

25 March 2020

Report title	Investment Strategy Statement 2020	
Originating service	Pension Services	
Accountable employee	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

Recommendation(s) for action:

The Committee is recommended to approve the revised Investment Strategy Statement (ISS) drafted for the West Midlands Pension Fund (WMPF) noting that:

1. The ISS has 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 changes in strategy following the Fund's Strategic Asset Allocation review.

3. Following the merger of the West Midlands Integrated Transport Authority Pension Fund (WMITA PF), there is no longer a separate Investment Strategy Statement for this Fund, instead there are separate Admission Body Pension Fund strategies for the two former employers in the WMITA PF are incorporated within the WMPF ISS.

4. A copy of the Statement will be published on the Fund's website.

1.0 Purpose

1.1 To present for Committee review and approval the Investment Strategy Statement updated to reflect the Fund's review of investment strategy, incorporating updated investment beliefs, governance and risk management arrangements and the Strategic Investment Allocation Benchmark (SIAB). The Responsible Investment Framework referred to within has also been updated and is presented for review in a separate paper.

2.0 Background

2.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, in force from 1 November 2016, require Administering Authorities to publish their first Investment Strategy Statement (ISS) from 1 April 2017 and keep under review.

2.2 To comply with the regulations and guidance, the ISS must include:

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2.3 The ISS was last reviewed and updated in March 2019 and reflected mainly policy changes in the case of the WMPF ISS and the strategic asset allocation changes agreed for the West Midlands Integrated Transport Authority Pension Fund (WMITA PF).

3.0 Changes incorporated in the revised Investment Strategy Statement

3.1 Following the merger of the WMITA PF with the WMPF main fund, the Fund is no longer required to publish a separate ISS for the WMITAPF. However, in recognition that there are now two distinct and separate Admission Body Separate Funds (ABSF) relating to the former employers who were admitted bodies within the WMITA PF, there are now separate schedules which relate to these employers as appendices to the main ISS. This is in line with the approach outlined to MHCLG during the application for merger.

3.2 Following the 2019 triennial actuarial valuation and review of the funding strategy, the Fund has been working with its external investment and risk advisers to review the investment strategy and to update the strategic asset allocation in light of the updated funding position and changing future contribution outlook. The investment beliefs outlined within the ISS and risk tolerance of the Fund have been considered and are reflected within the recommendations stemming from the review. The ISS have now been updated to reflect

changes in strategy for both the main fund and the ABSFs. The Committee have received through training and a separate agenda item, further detail on the review, risk considerations and rationale for changes to the Strategic Investment Allocation Benchmark (SIAB).

3.3 When considering the Investment Strategy, the Fund looks to set a medium-term strategy to cover the next one to two actuarial valuation cycles (3-6 years) reflecting on the longer-term funding requirements and the development of the future benefit cashflow and evolving liability profile of the Fund. It is recognised that conditions may well change over that time period and as a consequence the Fund will keep its ISS under review with the Committee reviewing the ISS on an annual basis.

3.4 Key strategic asset allocation changes contained within the ISS for the main fund are reducing the target allocation to growth assets and increasing the strategic allocation to income producing assets and stabilising (lower risk) assets, reflecting the improved funding position from the actuarial valuation and the desire to reduce overall levels of investment risk whilst maintaining a return target focused on delivering the longer term investment returns to meet our funding strategy.

3.5 The appendices to the ISS also contain the updated ABSFs strategies, these reflect the more mature nature of these specific ABSFs and hence the requirement for different investment strategies. The ABSF WMTL has a maturing liability profile and as such, changes to this strategy are aimed at reducing investment risk. No changes have been made to the PBL ABSF, noting this strategy was recently updated in December 2018 to reflect a reduction in investment risk. Both associated employers have been consulted on the strategies reflected within the ISS, with further changes to the PBL strategy deferred following feedback from the employer.

3.6 The Fund has undertaken a review of its investment beliefs, looking to refine and build on previous iterations of Fund beliefs and in setting the context for wider strategy work, these updated investment beliefs have been included at a high level within the main body of the ISS and the detailed beliefs as an appendix to the ISS.

3.7 The Fund's Investment Advisory Panel have reviewed the updated strategy and investment beliefs and have been consulted on the ISS. In recommending the updated ISS, the Fund has undertaken a consultation process with key stakeholders which have included group consultation meetings on the valuation and high-level investment strategy. Employers have been issued with a copy of the draft ISS and the draft has been published on the Fund's website pending approval by Pensions Committee. The Committee will be updated of any further feedback on the consultation at the Committee meeting.

3.8 The SIAB and the wider ISS will be reviewed annually to ensure it remains up to date and reflect any changes, for example to reflect developing statutory guidance on the approaches Funds with the LGPS take with regard to investment strategy, implementation and governance, or interim review. The next full investment strategy review will be carried out in conjunction with the 2022 actuarial valuation, for approval by 31 March 2023.

3.9 The updated ISS is contained in Appendix A and once approved, it will be published on the Fund website. This replaces previous ISSs for both the WMPF and the WMITAPF which were last approved in March 2019.

4.0 Financial implications

4.1 This report contains no direct financial implications.

5.0 Legal Implications

5.1 Regulation 8 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with the guidance issued by DCLG.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:

a) To require an administering authority to make changes to its investment strategy in a given timescale;
b) To require an administering authority to invest assets as specified in the Direction;
c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 There are no direct environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 DCLG guidance on preparing and maintaining an investment strategy statement (September 2016)

https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement

11.0 Appendices

11.1 Appendix A – Investment Strategy Statement 2020.

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INVESTMENT STRATEGY STATEMENT
MARCH 2020

West Midlands Pension Fund

CONTENTS

1 INTRODUCTION

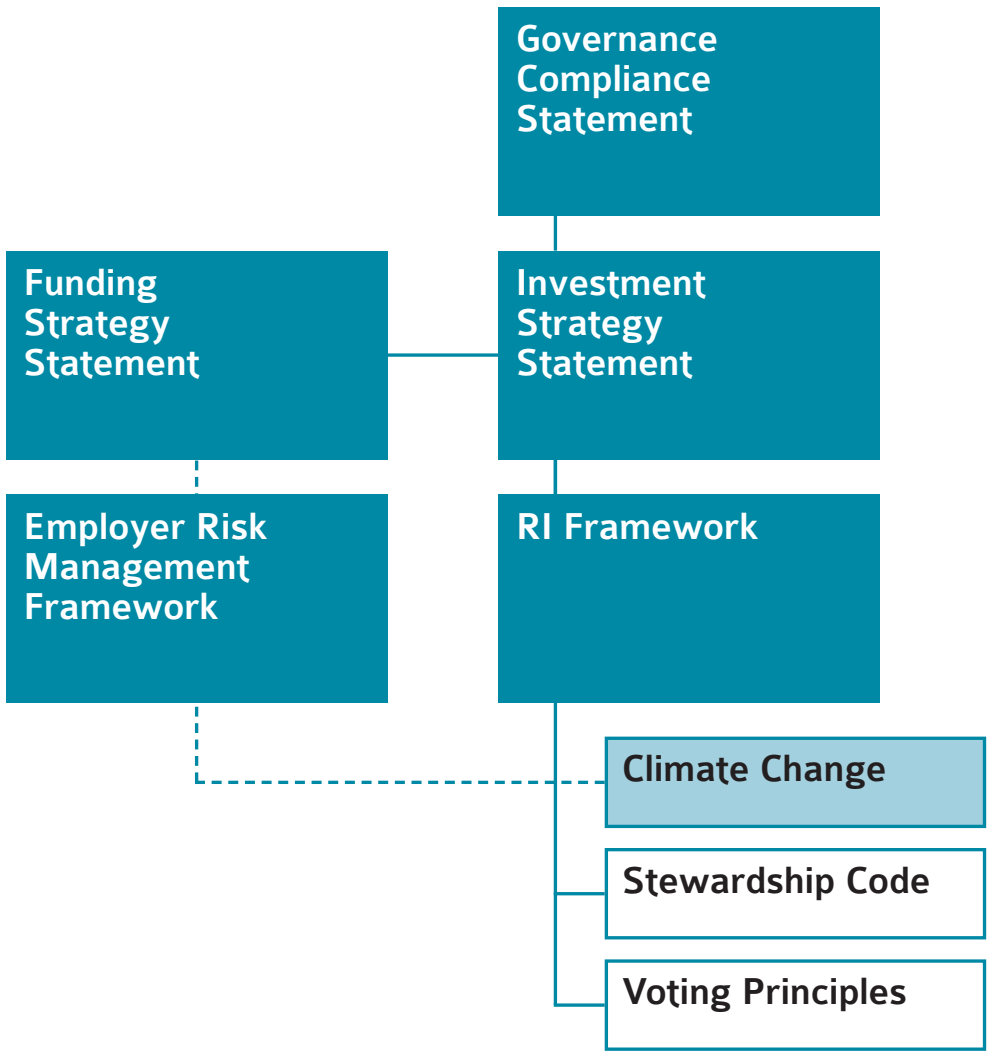
Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the West Midlands Pension Fund (the Fund) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. In preparing the ISS, the Pensions Committee has consulted with such persons as it considered appropriate. This statement updates and replaces the March 2019 ISS for both the WMPF main fund and the previously separate West Midlands Integrated Transport Authority Pension Fund (WMITAPF) Investment Strategy Statements. This statement was approved by Pensions Committee on 25 March 2020.

The ISS outlines the Fund's investments objectives and investment beliefs, identifies the risks the Fund faces and outlines how these risks are controlled/mitigated. In defining the implementation of the Fund's investment strategy, the ISS sets out the Strategic Investment Allocation Benchmark (SIAB) including the permitted ranges for different investment asset types.

The ISS also outlines the Fund's views on Responsible Investment (RI) and how RI is integrated into the investment decision making process and the role it plays in the way the Fund selects and stewards its assets.

The ISS is supported by the Funding Strategy Statement (FSS) and the Fund's employer covenant monitoring framework. Together these ensure an integrated approach to funding and investment strategy and risk management supporting the Fund in meeting the regulatory funding requirements.

The statements and framework relate as follows and are supported by a broader framework of policies in investments, most notably those relating to Responsible Investment:



Investment Governance Framework

The City of Wolverhampton Council is the administering authority for the Fund under the regulations. The City of Wolverhampton Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Chief Executive of the City of Wolverhampton Council delegates certain responsibilities to the Director of Pensions who, in turn, delegates to the internal officers and external fund managers. The Investment Advisory Panel advises the Director of Pensions on investment issues relating to the Fund.

The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises representatives from the seven district councils and three local trade unions. The Fund has a statutory Local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. The Investment Advisory Panel includes two external advisers alongside the Director of Pensions, Assistant Director and Head of Investments. Neither the Local Pensions Board nor the Investment Advisory Panel have any decision-making powers. Roles and responsibilities are set out in more detail in Appendix A.

The Committee's investment objectives are represented by the Strategic Investment Allocation Benchmark (SIAB) included as Appendix B. This reflects the Committee's views on the appropriate balance between generating long-term investment return and taking account of market volatility and the risk and nature of the Fund liabilities.

ISS Review

The ISS is subject to fundamental review at least every three years and from time to time on any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which are judged to have a bearing on the stated investment policy. In line with other Fund policies, the ISS is reviewed annually. In preparing the ISS, the Committee has considered advice from the Fund's investment and risk consultants.

Following a process of public consultation undertaken by the Ministry of Housing Communities and Local Government (MHCLG), Regulations were laid before parliament providing for the merger of the former West Midlands Integrated Transport Authority (WMITA) pension fund into that of the main West Midlands Pension Fund. Those regulations came into force on 8 November 2019 and apply retrospectively to effect merger from 1 April 2019.

In conjunction with the merger, former employers of the WMITA pension fund now participate in the main West Midlands Pension Fund with associated assets and liabilities transferred to two separate admission body funds (ABF). For the purposes of the 2020 Investment Strategy Statement (and thereafter) the associated investment strategy statements for the new separate ABFs are included as appendices to this ISS (appendices D and E).

The Fund has undertaken a consultation process with key stakeholders which have included group consultation meetings on the valuation and high-level investment strategy. Employers have been issued with a copy of the draft ISS and the draft has been published on the Fund's website pending approval by Pensions Committee. The two employers covered by the ABFs have also been consulted on their individual investment strategies, where applicable, which are incorporated in the appendices to the ISS.

2 PURPOSE OF THE ISS

The aims and purpose of a pension fund operating within the Local Government Pension Scheme (LGPS) are set out in the LGPS Regulations and the Public Service Pension Act 2013. With regard to funding, they can be summarised as follows.

The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable primary and total contribution rates to be kept as nearly constant as possible; and
- seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- receive and invest monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses, as defined in the GPS regulations and as requirement in the LGPS (Management and Investment of Funds) Regulations 2016.

The purpose of the ISS is:

- To set out the governance arrangements for investment
- To set out the Fund's investment objectives
- To define the Fund's investment beliefs
- How the Fund will manage investment-related risks
- How the Fund incorporates responsible investment
- To set out the Fund's strategic investment asset benchmark (SIAB) and ranges allowed to provide flexibility

3 INVESTMENT OBJECTIVES

The primary objective of the Fund is to ensure that the Fund is able to meet the pension promises (liabilities) made to scheme members as they fall due. To meet this objective the Fund sets the investment strategy so that the target level of return is achieved over the longer-term and that sufficient cashflow is generated so that it's liabilities can be met.

The Fund has a range of other objectives which include considering the needs of all key stakeholders which are supplementary to the aims of the Fund.

The funding objectives are set out in the Funding Strategy Statement.

4 INVESTMENT BELIEFS

The Fund's Statement of Investment Beliefs are set out in Appendix C which underpin the Fund's approach to investment strategy and how it is implemented. These beliefs underpin the ISS and cover:

- Financial market beliefs – The Fund adopts a long-term approach to investing as its liabilities stretch far into the future but in so doing seeks to also take a proactive approach to the management of assets taking into account the risk/return profile of different investment opportunities over a range of time periods
- Governance beliefs – The Fund believes having effective governance structures and policies will enable rigorous and tested decision making and will add value to the Fund over the longer term. Transparency and cost effectiveness provide key tenets of being a well governed Fund.
- Investment strategy – The Fund's investment strategy will encompass its approach to risk management, risk tolerance, liquidity and levels of return required to meet its strategic objectives. The Fund will set its strategic asset allocation to deliver the long-term returns required to meet its funding needs taking into account diversification, the requirement to remain agile, risk and cost of implementation, recognising that risk should be viewed both qualitatively and quantitively.
- Responsible investment – As long-term owners of capital (assets), the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests is protected and where possible, enhanced. Investing responsibly and engaging as long-term owners reduces risk over time and has been proven to positively impact investment returns. The Fund is integrating responsible investment into the way it selects and stewards all assets.
- Climate change – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.

5 IDENTIFICATION AND MANAGEMENT OF RISKS

Evaluation of risks that may impact on the investment strategy of the fund and expectation of future returns is crucial in determining the appropriate measures to mitigate those risks. The ISS identifies key risks specific to the Fund and the management or controls made to mitigate those risks:

Financial Risks	Management / Control
Investment risk - Assets do not deliver the return required to meet the cost of benefits payable from the Fund; potential drivers: • Inappropriate asset allocation and risk management • Investment market performance/volatility • Manager underperformance • The possibility that inflation is higher than expected increasing the Fund's liabilities and/or that the assets held deliver a level of return lower than inflation	• Investment strategy considered in context of Fund liabilities and return requirement set within the Funding Strategy Statement • Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement (ISS), with annual review • Regular monitoring of strategic asset allocation and returns relative to benchmark • Regular monitoring of manager performance • Diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles • Mitigates inflation risk through holding a diversified portfolio of growth and inflation-linked assets. Inflation risk is considered annually in the review of the SIAB and triennially as part of the actuarial valuation
Increasing maturity and benefit cashflow requirement; potential drivers: • Falling contribution income and increasing total benefit payments as more members start to draw their benefits • Declining active membership due to change in local authority service delivery models • Increasing reliance on income-generating assets	• Investment strategy review develop based on future benefit cashflow projection • Modelling of investment strategy and future asset income streams • Regular monitoring of membership movements and liability profile
Changing scheme regulations and guidance – impacting scheme benefits, funding strategy, actuarial valuations, investment strategy; potential drivers include: • Changes to scheme benefits from the LGPS cost management process • Changes to the approach for setting actuarial factors (for example on early retirement)	• Ongoing horizon scanning and consideration on the Fund risk register • Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding • Participation in national review and consideration of emerging issues within the LGPS

Financial Risks	Management / Control
• Changing regulations and guidance for administering authorities within the LGPS	
Asset risks (the portfolio versus the SIAB) • Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. • Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. • Currency risk that the currency of the Fund's assets underperforms relative to the SIAB. • Manager underperformance when the Fund managers fail to achieve the rate of investment return assumed in setting their mandates.	Asset risks at the fund level are mitigated by the setting and review of the SIAB. At the asset class level asset risks are mitigated by risk controls within individual asset mandates. • Constraining how far Fund investments deviate from the SIAB by setting diversification guidelines and the SIAB strategic ranges; • Investing in a range of investment asset mandates, each of which has a defined objective, performance benchmark, eligibility criteria and permitted ranges for individual securities which, taken in aggregate, constrain risk within the Fund's expected parameters; • Investing across a range of liquid assets, including quoted equities and bonds. This recognises the Fund's need for some access to liquidity in the short term; • Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process; • Appointing several investment managers. In doing so the Fund has considered the risk of underperformance by any single investment manager
Responsible investment (RI) risks that are not given due consideration by the Fund or its investment managers.	• The Fund actively addresses environmental, social and governance risks through implementation of its Responsible Investment (RI) Framework and its Compliance with the UK Stewardship Code for Institutional Investors. Key elements include selection, stewardship and disclosure.
Climate change - The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.	• Establishment of a separate climate change framework and strategy setting out its approach to this risk • Monitoring and measuring the impact of climate change risks

Operational Risks	Management / Control
Investment pooling: • Expected benefits and cost savings do not emerge over the long-term	• Investment Pool Risk Register • Collaboration on product development – protocol in place • Monitoring and management of costs
Transactional: • Transition risks – unexpected costs or losses arising from transition of assets • Custody – risk of losing economic rights to Fund assets when in custody or being traded • Credit or counterparty – potential default of counterparty • Financial recording of assets is inaccurate	• Professional advice from specialist transition managers, due diligence and oversight on transitions • Use of global custodian, contractual management and accounting records • Due diligence prior to appointment, review of credit ratings, internal controls reporting and compliance monitoring • Reconciliation of assets, internal and external audit

6 INVESTMENT STRATEGY

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (set out in Appendix B) taking into account both the liability structure and the Fund's objectives. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The investment beliefs in Appendix C also help in formulating the investment strategy.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark and strategic ranges.

The Fund will be diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix B shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

The Fund will use risk attribution provided by independent advisors to assess diversification benefits.

7 DAY-TO-DAY MANAGEMENT OF THE ASSETS

Investment Management Structure
The Pensions Committee retains responsibility for the investment strategy of the Fund but has delegated oversight of its implementation to the Director of Pensions, advised by the Investment Advisory Panel.

The day-to-day management of the Fund's investments is led by the Assistant Director - Investment and Finance, supported by an internal team, investment consultant and external managers including the pool company, LGPS Central Limited. Further details are set out in Appendix A.

The Internal Investment Committee (IIC) is responsible for the day-to-day management and oversight of the assets including implementation of the strategic asset allocation within the benchmark ranges set out in the SIAB. This is supported by the Investment Advisory Panel and advice from the appointed investment consultants.

External Investment Managers
The Fund has appointed a number of external investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The investment managers are required to comply with LGPS investment regulations and operate within investment mandates set by the Fund. External managers are also expected to comply with the Fund's requirements on cost transparency.

Investment Pooling
A significant amount of investment is implemented through LGPS Central Limited following the setting up of a local authority shareholder owned FCA-regulated company, alongside seven Partner Funds and launched in April 2018. This comprises a mix of directly managed sub-funds along with a number of advisory mandates which the Fund has in place to assist with the day-to-day management of the assets. Both the individual sub-funds and the advisory portfolios are set a clear investment mandate with an accompanied investment process.

Oversight of performance is the responsibility of the IIC.

Expected Return on the Investments
Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation (the discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

Suitable Investments
Subject to the LGPS regulations on allowable investments the fund may invest in a wide range of assets and strategies including quoted equity, government and non-government bonds, currencies, money markets, commodities, traded options, financial futures and derivatives, alternative strategies (including insurance linked securities and loans), private equity and debt markets, infrastructure and property. Investment may be made in-house, in segregated mandates, indirectly (via pooled funds or partnership agreements), in physical assets or using derivatives. The Fund will also use external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses.

The Fund may make use of derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

Additional Assets
Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Utmost Life (from January 1st 2020) and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds.
The Fund monitors, from time to time, the suitability and performance of these vehicles.

Realisation of Investments
The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly, if required. The Fund will ensure that the liquidity of the investments is suitable to meet future cashflow requirements. In general, the Fund's investment managers have discretion in the timing of realisations of individual, underlying investments and in considerations relating to the liquidity of those investments. Private equity, infrastructure and a number of the Fund's alternative investments, may be difficult to realise quickly in certain circumstances.

Monitoring the Performance of Fund Investments
The performance of all assets and investments is independently measured by an external provider. In addition, officers of the Fund meet or engage with all investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets regularly and reviews markets and Fund performance at least annually.

8 DAY-TO-DAY CUSTODY OF THE ASSETS

The Fund has appointed a custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

9 SECURITIES LENDING

Securities lending is undertaken in respect of the Fund's quoted equities holdings through the custodian/asset servicer. There is a formal securities lending agreement and approved collateral management framework to control and mitigate risk. Securities lending may also take place in pooled investment vehicles held by the Fund including those developed with LGPS Central Limited.

10 INVESTMENT POOLING

The Fund is part of the LGPS Central pool with the objective that the pooled investments can expect to benefit from lower investment costs and the opportunity to access alternative investments on a collective basis. As a local authority-owned and FCA-registered investment manager, the pool company, LGPS Central Limited is required to provide governance, transparency and reporting to give the Fund assurance that its investment instructions are being carried out appropriately. The Fund monitors the performance and management of its assets with LGPSC Ltd (either directly in sub-funds or through advisory and other forms of agreements) on a quarterly basis. It undertakes it oversight arrangements both collectively with other Partner Funds but also individually to assess whether the investments are meeting the Fund's longer-term strategic requirements.

The Fund intends to invest the majority of its assets through the LGPS Central Pool, transitioning over time and maintaining operational cash balances within the Fund. The Fund is likely to continue to hold a number of legacy assets and may hold assets outside the pool to meet specific strategic investment requirements not available through the pool or more effectively managed outside. These will continue to be managed by the Fund given liquidity and the potential for significant loss of value should these assets need to be redeemed to meet the requirement to transition assets.

Investment strategy is set by the Pension Committee who also continues to oversee implementation of the investment strategy with the assistance of Fund officers and independent advisors. This includes the transition of assets to the LGPS Central Pool and ongoing monitoring of those arrangements, through the pool's governance framework.

11 RESPONSIBLE INVESTMENT

The Fund's approach to responsible investment is set out below and further detailed in its Responsible Investment Framework. The Fund believes that effective management of financially material responsible investment (RI) including climate change risks should support the Fund's requirement to protect returns over the long term. The Fund seeks to integrate responsible investment factors (adding corporate governance, environmental and social factors to the existing financial factors) into the investment process across all relevant asset classes. The Fund votes on all investments where possible and engages with companies when engagement will add value to the Fund.

The Fund is a signatory to the Stewardship Code (see www.wmpfonline.com) and the Principles of Responsible Investment. The Fund works with like-minded investors to promote best practice in long-term stewardship of investments. The Fund will not seek to exclude investments that are not barred by UK law.

RI Beliefs and Guiding Principles
The Fund's RI beliefs and guiding principles underpin its RI approach and are set out in detail in the Fund's Responsible Investment Framework.

RI Integration
The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect and potentially enhance returns over the long term. Investment managers incorporate RI into their investment process. With regard to climate change risk, the Fund recognises that the scale of the potential impact is such that a proactive and precautionary approach is needed in order to address it setting out in more detail the Fund's approach to climate change within its separate Climate Change Framework and Strategy.

The Fund considers RI to be relevant to the performance of the entire Fund across all asset classes. RI investments will be considered where any non-financial benefit is aligned with a positive financial benefit.

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.

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.

Engagement Versus Exclusion
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 or financially material RI 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 their 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. The Fund will continue to monitor the success of both its individual but also collective engagement with companies.

Voting
Where practical, the Fund aims to vote in every single market in which it invests in alignment with corporate governance best practice guidelines. 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. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers.

12 CLIMATE CHANGE

The Fund takes an evidenced based approach to the risks around climate change and acknowledges the potential financial risks that climate change pose to the Fund's investments. The Fund has developed and published a separate Climate Change Framework and Strategy, setting out how it intends to manage both the risks and opportunities of climate change and how it intends to integrate climate change into its broader strategy and asset management. The Fund has set targets and will monitor and manage delivery of those targets and report back to Pensions Committee on progress. The Climate Change Framework and Strategy is subject to annual review by the Committee.

13 COMPLIANCE WITH THIS STATEMENT

The Fund will monitor compliance with this statement. In particular, it will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

14 COMPLIANCE WITH MYNERS

Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Full details of compliance are set out in the Fund's Compliance with Myners' Statement which can be found on the Fund's website.

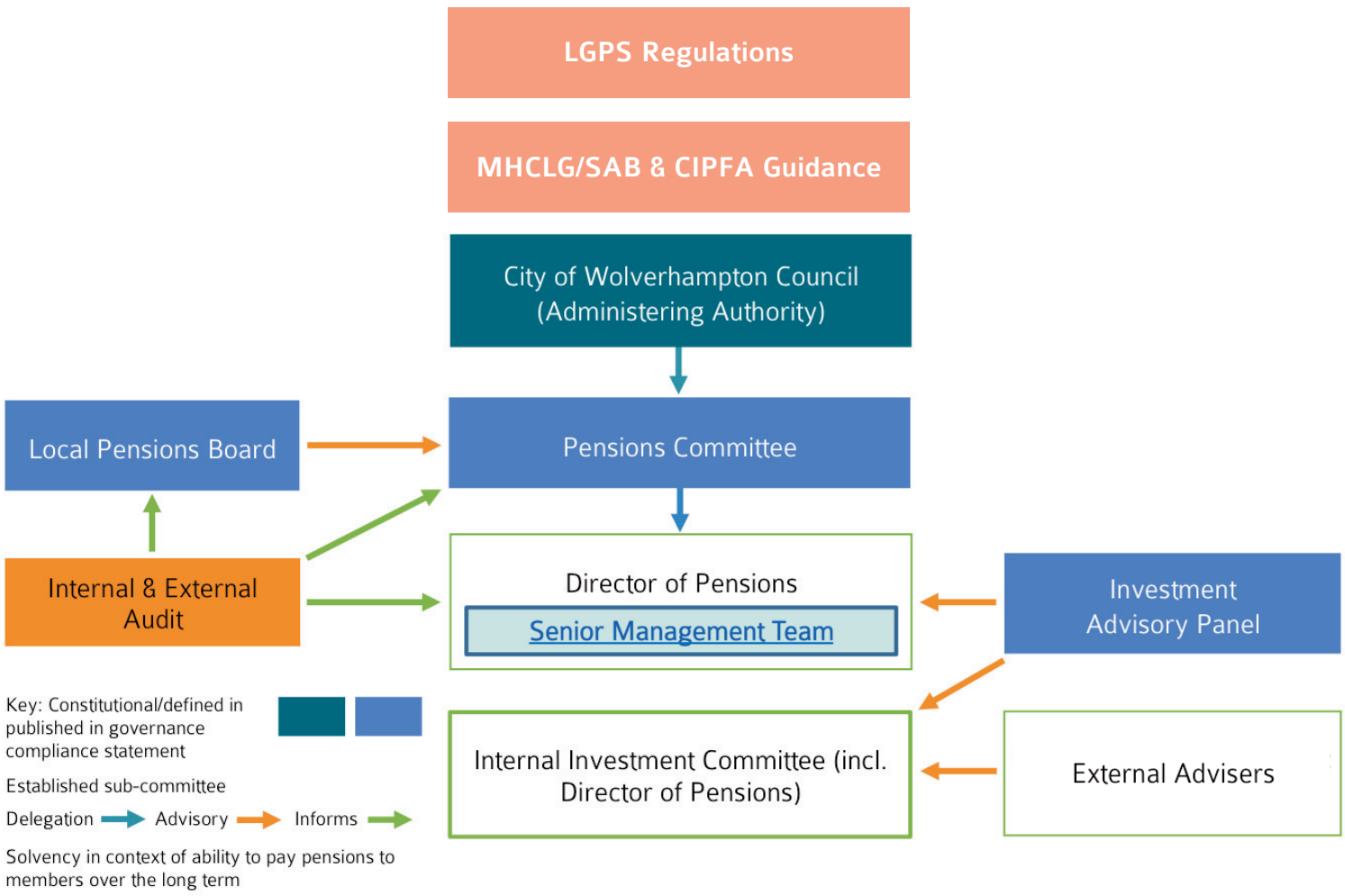
The Myners' principles have since been updated, and the Fund continues to support and comply with them. Full details of compliance are set out in the Fund's Compliance with Myners' Statement which can be found on the Fund's website.

LIST OF APPENDICES

- **Appendix A** – Roles and Responsibilities
- **Appendix B** – WMPF Main Fund Strategic Investment Allocation Benchmark (SIAB) and Ranges
- **Appendix C** – Statement of Investment Beliefs
- **Appendix D** – WMPF Separate Admission Fund NX Strategic Asset Allocation
- **Appendix E** – WMPF Separate Admission Fund PBL Strategic Asset Allocation

APPENDIX A: ROLES AND RESPONSIBILITIES

The regulatory and governance framework in place to manage investment strategy includes:



The roles and responsibilities of the different bodies in the governance structure are outlined below:

Pensions Committee	• Effect decisions on the management and administration of the Fund including investment decisions, annual approval of the Investment Strategy Statement
Local Pensions Board	• Review the process of effective decision-making
Director of Pensions	• Delegation for day to day management of Pension Fund including investments and implementation of investment strategy
Investment Advisory Panel	• Supports the Director of Pensions and Internal Investment Committee with strategic advice, challenge, market commentary and oversight of portfolio management
Internal Investment Committee	• Day-to-day asset allocation and investment strategy decision-making and implementation of investment strategy, together with oversight and monitoring of investment management arrangements
Investment Advisors	• Provision of advice on markets, investment strategy, risk management and individual investment ideas
Internal & External Audit	• Review process, decisions and implementation and to provide assurance to those charged with governance of the Pension Fund

The roles of the members and the Committee are as follows:

To exercise all those functions of City of Wolverhampton Council which are required to be performed by its role as Administering Authority for the Local Government Pension Scheme under the Public Services Pensions Act 2013 (and any associated legislation) adhering to the principles required by Statutory Guidance and the Code of Practise issued by The Pensions Regulator.

The key duties in discharging this role are:

1. To act as Pension Scheme Manager for the administering authority in the management and administration of the local government pension scheme fort the West Midlands.
2. To be responsible for compliance with legislation and best practice
3. To undertake training as outlined in the Fund's Pensions Committee and Pensions Board Training Policy.
4. To review and agree the Investment Strategy Statement, Responsible Investment Statement and Funding Strategy Statement for the Fund.
5. To monitor funding and investment activity and the performance of the Fund's investments;
6. To produce and maintain an Administering Authority Statement, Pension Administration Strategy, Governance Compliance Statement, Communications Statements and publish a Pension Fund Annual Report;
7. To determine employer admission policy and agreements;
8. To appoint and monitor an investment pool operator to manage the assets of the Fund;
9. To appoint Committee advisors;
10. To determine detailed management budgets; and the Fund's Service Plan
11. To administer all aspects of the West Midlands Pension Fund on behalf of City of Wolverhampton Council.

Further information about the role of the Pensions Committee is available in the Pensions Committee Terms of Reference which can be found in the City of Wolverhampton Council Constitution.

The Director of Pensions oversees the implementation of Fund policy and the management of the day-to-day operational functions through the Fund's service areas. The Committee are advised and supported by the Chief Executive, Director of Pensions, Assistant Director, Section 151 Officer, Monitoring Officer, Heads of Service and Senior Finance and Legal Officers from the City of Wolverhampton Council.

Local Pensions Board
The role of the Local 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 and five member representatives together with two City of Wolverhampton councillors, each sitting one 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 statutory duties.

Investment Advisory Panel
The Investment Advisory Panel advises the Director of Pensions on investment issues relating to the Fund.

The Investment Manager
Appointed Investment Managers carry out the investments for the Fund. Investment managers encompass both LGPS Central Limited and external providers with investment activity governed by investment management agreements (external providers) and the terms of the LGPS Central Limited Authorised Contractual Scheme and other legal entities (eg, limited partnerships).
The Fund also maintains a number of investment advisory agreements with LGPS Central Limited which are subject to review on an ongoing basis.

APPENDIX B: WMPF MAIN FUND STRATEGIC INVESTMENT ALLOCATION BENCHMARK AND RANGES

Medium-term asset allocation March 2020	Target %	Total %	Range %
Growth		**50.00**	**40-60**
Liquid growth		**42.0**	
Developed market equities	30.0		
Emerging market equities	12.0		
Illiquid growth		**8.0**	
Private equity	6.0		
Special opportunities	2.0		
Income		**38.00**	**30-50**
Liquid income		**14.0**	
Multi-asset credit	5.5		
Corporate bonds	4.0		
Emerging market debt	4.5		
Illiquid income		**24.0**	
Infrastructure	9.0		
Property	9.0		
Diversified credit	6.0		
Stabilising and low risk		**12.0**	**5-20**
Stabilising		**7.0**	
Government bonds	2.0		
Index-linked bonds	3.0		
Cash	2.0		
Stabilising low risk		**5.0**	
Index-linked bonds	1.0		
Corporate bonds	2.0		
Multi-asset credit	1.0		
Diversified credit	1.0		
Total	**100.0**		

APPENDIX C: STATEMENT OF INVESTMENT BELIEFS

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Headline beliefs
Objectives beliefs – As a pension fund the primary objective is to ensure that the Fund is able to meet the pension promises (liabilities) made to scheme members as they fall due. The Fund has a range of other objectives which include considering the needs of all key stakeholders which are supplementary to the primary objective
Financial market beliefs – The Fund takes a long-term approach to investing as its liabilities stretch into the future. The Fund has a proactive approach to the management of assets taking into account the risk/return profile of different investment opportunities over a range of time periods.
Governance beliefs – The Fund believes having effective governance structures and policies will enable rigorous and tested decision making and will add value to the Fund over the longer term. Transparency and cost effectiveness provide key tenets of being a well-governed Fund.
Investment strategy – The Fund's investment strategy will encompass its approach to risk management, risk tolerance, liquidity and levels of return required to meet its strategic objectives. The Fund will set its strategic asset allocation to deliver the long-term returns required to meet its funding needs taking into account diversification, the requirement to remain agile, risk and cost of implementation, recognising that risk should be viewed both qualitatively and quantitively.
Responsible investment – As long-term owners of capital (assets), the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests is protected and where possible, enhanced. Investing responsibly and engaging as long-term owners reduces risk over time and has been proven to positively impact investment returns. The Fund is integrating responsible investment into the way it selects and stewards all assets.
Climate change – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.

Objectives
Headline objectives – As a pension fund the ultimate objective is to ensure that the Fund is able to meet the pension promises (liabilities) made to scheme members as they fall due. The Fund has a range of other objectives which include considering the needs of all key stakeholders which are supplementary to the primary objective. • Setting clear and well-defined objectives are essential to reflect the Fund's long-term direction of travel • Use of an integrated risk management framework including interlinking with both employer covenant monitoring and funding work to assist in delivering the sustainability of the Fund

- To meet the changing needs of the Fund's scheme membership and employer base, noting in particular the growing number of both members and employer but also changing workforce patterns and nature of employment and employers in the Fund.
- The Fund's asset allocation will reflect a risk-based assessment of its ability to meet its long-term pension liabilities taking into account funding levels, cash flow and balancing risks to long term sustainability of contributions

Financial market beliefs

Headline financial market beliefs – The Fund takes a long-term approach to investing as its liabilities stretch into the future and in so doing seeks to take a proactive approach to the management of assets taking into account the risk / return profile of different investment opportunities over a range of time periods

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. The Fund monitors the long-term returns (10 years plus) of asset classes and their level of risk through assessing the level of volatility over time
- Markets are dynamic and asset values can become distorted over time providing opportunities for the Fund to benefit from the mispricing of assets
- There are opportunities for the Fund to access a level of illiquidity premium by its ability to invest longer term in illiquid assets where there is evidence that it is beneficial to do so
- Diversification is a key risk management tool for the long-term investment of Pension Fund assets
- Investing for the long-term can enable the Fund to use short term volatility to acquire investments when attractively priced
- The Fund does not need to own an asset class/investment strategy where it is not expected to help in delivering the required risk-adjusted return.
- The Fund recognises that currency management including the use of currency hedging is another risk management tool
- The Fund believes that the use of derivatives e.g. market futures and currency forwards can enable the Fund to implement its investment strategies and make asset allocation changes in a cost effective and efficient way.

Governance and organisational beliefs

Headline Governance and Organisational Beliefs – The Fund believes having effective governance structures and policies will enable rigorous and tested decision making and will add value to the Fund over the longer term. Transparency and cost effectiveness provide key tenets of being a well-governed Fund.

- Effective governance and clear decision-making structures promote clear accountability, audit and transparency in decision making leading to appropriate levels of challenge and improved investment outcomes
- Internal investment management can lead to lower costs, improved transparency and greater responsiveness in meeting the Fund's broader strategic objectives including those aligned with responsible investment.

- The Fund will assess and select the most appropriate benchmarks or absolute return targets for individual asset classes and will use a customised benchmark for the Fund as a whole
- The Fund will assess its performance against its customised benchmark and will assess its longer performance against relevant peer groups both national and international comparatives to assess the value add that the Fund is delivering
- The Fund will assess a range of implementation routes to accessing asset classes and individual investment opportunities, this will include the use of the investment pool company
- Investment costs are a certain cost versus investment performance which provides for an uncertain outcome and the Fund believes that investment costs should be fully transparent and assessed as part of any investment decision.
- Effective cost management will enhance investment returns. Cost should be transparent and assessed within decision making and monitored to ensure investments continue to offer VFM
- Investment costs are an important determinant in assessing investments, but net of fees performance is a more important factor in delivering investment performance
- Effective manager monitoring, and oversight is critical for risk management and enhancing outcomes
- Effective implementation and structuring of investment portfolios should enhance the long-term returns to the Fund

Investment Strategy Beliefs Beliefs

Headline strategy beliefs – The Fund's investment strategy will encompass its approach to risk management, risk tolerance, liquidity and levels of return required to meet its strategic objectives. The Fund will set its strategic asset allocation to deliver the long-term returns required to meet its funding needs taking into account diversification, the need for flexibility, risk and cost of implementation.

- Taking a long-term perspective on investment strategy will deliver better outcomes for the Fund
- SAA is a key determinant of risk and return and the Fund believes that this will add greater value than individual manager or stock selection over time
- SAA targets needs to encompass flexibility to be able to take account of market volatility and enable the Fund to manage cashflows
- Alternative asset classes add further diversity to the portfolio and improve its risk-return characteristics
- Active management can add value over time, but it is not guaranteed and can be hard and more expensive to access. Where actives strategies are not considered to add value, a passive approach will be selected
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our Fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests

- Strategic asset allocation is the most important driver of the Fund's investment outcome. The asset allocation process balances diversified risks against the expected additional returns for these risks. The main sources of return for the Fund for bearing risk ('risk premia') are equity, credit, and illiquidity.
- Diversification through effective portfolio construction is a key technique available to investors for spreading risk across a range of factors and improving risk-adjusted returns

Responsible investment beliefs

Headline responsible investment beliefs – As long-term owners of capital, the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests. Investing responsibly and engaging as long-term owners reduces risk over time and positively impacts investment returns. The Fund will integrate responsible investment into the way it manages all assets.

- Effective management of financially material ESG risks including climate change risks should support the Fund's requirement to protect and optimise 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.
- The Fund may take into account non-financial factors when making investment decisions, provided that it is able to demonstrate no significant financial detriment from doing so
- The Fund believes working collaboratively with other investors will deliver improvements to the way in which companies are managed and the provides the opportunity to influence wider policy which could impact on the long term returns to the Fund

Climate change beliefs

Headline climate change beliefs – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and individual investments when making decisions.

- The Fund believes there is overwhelming evidence to support the fact that climate change is impacting on the environment and that this will have longer term consequences for the Fund's financial returns if not managed.
- We believe that climate change is financially material across all major asset classes. In support of fiduciary duty, the risks and opportunities presented by climate change should be mitigated and exploited by asset allocation decisions, by individual investment decisions, and through purposeful stewardship.

- Climate change has the potential to impact the funding level of the pension fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.
- We believe that a transition to a low carbon economy is essential and that carefully designed and targeted government and company policies can ensure a just transition for workers and communities, with substantial economic and social benefits. In addition, public finance will be important as a cross cutting mechanism to invest in human capital and inclusive growth
- The Fund will collaborate with other investors to campaign for positive changes to policy both nationally and at a company level to bring about change aligned to the Paris accord of 1.5 to 2.0 degrees scenarios
- The Fund will adopt a focused climate change policy which will be monitored and measured to ensure that the Fund is delivering against policy targets set within its climate change policy
- The Fund accepts that there are both risks, and opportunities involved in climate change and will take these into account when setting investment strategy but also when considering individual investments
- In order to assess progress for the Fund towards a lower carbon economy it is essential for the Fund to measure its climate risk exposure at regular intervals

APPENDIX D: WMPF SEPARATE FUND WMTL STRATEGIC INVESTMENT ALLOCATION BENCHMARK AND RANGES

WMTL medium term asset allocation March 2020	Target %	Range %
Return seeking (equities)	16.0	14-18
Alternative credit	48.0	42-54
Stabilising gilts & bonds (including LDI)	36.0	32-40
Total	**100.0**	

The above excludes the value of the buy-in policy held to support meet a portion of the pensioner liabilities, which accounted for 46.2% of the total assets of the separate fund when last valued at 31 March 2019.

WMTL target hedge ratios	
Interest rates	70%
Inflation	40%
Total	**100.0**

APPENDIX E: WMPF SEPARATE FUND PBL STRATEGIC INVESTMENT ALLOCATION BENCHMARK AND RANGES

PBL medium term asset allocation March 2020	Target %	Range %
Return seeking (equities)	15.0	10-20
Alternative credit	26.0	20-35
Stabilising gilts & bonds (including LDI)	58.5	50-70
Cash	0.5	0-2
Total	**100.0**	

West Midlands Pension Fund
PO Box 3948
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WV1 1XP

Agenda Item No: 7

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 25 March 2020

Report Title	2019 Actuarial Valuation Update	
Originating service	Pension Services	
Accountable employee	Simon Taylor Tel Email	Head of Pensions 01902 554276 Simon.taylor2@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 asked to approve:

1. The Funding Strategy Statement (incorporating the former West Midlands Integrated Transport Pension Fund).

2. The Fund Termination Policy.

3. The Employer Risk Management Framework.

Recommendations for noting:

The Committee is asked to note:

1. The consultation undertaken in relation to the 2019 actuarial valuation and the associated Funding Strategy Statement.

2. Progress made towards finalising the valuation and planned delivery of the Fund actuary's valuation report and rate and adjustments certificate by the statutory deadline of 31 March 2020.

3. The steps taken in relation to risk management in the context of the Fund's integrated risk management framework.

1.0 Purpose

1.1 To provide Committee with an update on the 2019 actuarial valuation, the associated consultation with employers and to present the revised funding strategy statement (FSS).

2.0 Background

2.1 The Fund is currently required to carry out an actuarial valuation every three years and review and set the funding strategy and employer contribution rates for the following three years. As part of the valuation, effective 31 March 2019, the Fund Actuary will certify the employer contribution rates due for the three years 2020-2021 – 2022-2023. The Actuary's report and certificate must be obtained by the Fund by the statutory deadline of 31 March 2020.

2.2 The Fund actuary prepares the valuation based on the Fund's own Funding Strategy Statement (FSS), which has been updated since it was last reviewed in 2019, to reflect the changing regulations and updated actuarial advice received as part of the 2019 actuarial valuation. The FSS forms an integral part of the valuation, as it sets out the Administering Authorities strategy and policy on funding scheme benefits.

2.3 Following the merger of the West Midlands' LGPS pension funds, the FSS now incorporates funding strategy for employers within the former West Midlands Integrated Transport Pension Fund (WMITA PF).

2.4 The draft FSS was issued to employers for consultation in January, following a series of employer presentations during November 2019.

2.5 Consultation on the FSS formally closed on 14 February 2020, although discussions with a number of employers have continued into February and early March 2020.

3.0 Consultation

3.1 The Fund issued preliminary valuation results to employers during the course of November and December 2019 and has subsequently engaged in dialogue with employers to discuss their contribution outcomes, employer risk categorisation and funding strategy (including actuarial assumptions) as a whole. Over the period to 28 February 2020:

- 266 employer representatives attended group consultation meetings (a 49% increase on attendance at similar events for the 2016 valuation).
- 22 direct enquiries were raised at the consultation meetings.
- 159 emails have been received to the dedicated valuation mailbox covering 256 individual employers).
- 32 online enquiry forms submitted as part of the post-valuation consultation survey (covering 85 individual employers).

- Fund officers have met with 35 different employers.

3.2 Feedback from the consultation process has focussed on four main areas:

- Individual employer data (to include contact information) and liability queries
- Advance payment options
- Treatment of surplus and associated funding strategy
- Covenant rating and classification of employers into risk groups

3.3 For many employers, outcomes align to the outcomes at Fund-level, specifically the increase in funding level, and increased primary (future service) rate contributions, with a decrease in secondary (past service deficit) contributions. The consultation process has benefitted from improved employer understanding and awareness of the valuation process and outcomes, largely as a result of the extensive engagement undertaken as part of the 2016 actuarial valuation.

3.4 In a handful of cases affordability concerns have been raised by employers, primarily as a result of budgetary and/or cashflow pressures. In such cases, the Fund has requested evidence, to include updated financial information and short-term forecasts, to take into account in review of individual employer contribution plans.

3.5 In response to feedback from employers, the Fund (following advice of the Fund actuary) has provided some easement to employers through phasing increases in contributions and offering alternative payment profiles with a reduction in contributions for advance payment.

3.6 Where initiated by the participating employer, the Fund has also engaged with a number of scheme employers (guarantors) who provide a guarantee to that participating employer. This engagement has, in some cases, resulted in the guarantor extending comfort to afford the individual employer a more relaxed pace of funding, therefore minimising the cashflow pressure over the next three years, but with a further review at the next actuarial valuation.

3.7 Looking further ahead, and in particular at employers with increasingly mature membership profiles (those on a path to exit from the scheme), the Fund has engaged with certain employers around funding strategy to mitigate the effects of a significant exit debt on cessation. In some cases, the employer has agreed to step up contributions. This is an initial step in a wider review of employers on a path to exit, which may include a subsequent review of funding and investment strategy.

3.8 Final contribution requirements are being confirmed with the Fund actuary for inclusion in the 2019 actuarial valuation report and rates and adjustments certificate. These contribution requirements will also be confirmed to employers individually during the early part of March 2020. A number of employers have confirmed they will be making advance payment of contributions to the Fund, with significant contributions expected to be received during April 2020.

4.0 Employer Risk Management Framework

4.1 The Fund provided Committee with an update on the covenant monitoring and associated outcomes aligned to the 2019 actuarial valuation in January 2020.

4.2 Alongside the funding and covenant review the Fund has reviewed and updated the Employer Risk Management Framework. This review has incorporated employer feedback and developments in the process undertaken as part of the 2019 valuation. The main changes to the document include:

- Incorporation of the potential impact of climate risk within the covenant assessment framework.
- Coverage of the ill health insurance arrangements as part of the management of risk.

4.3 The updated Employer Risk Management Framework is attached in appendix A for review and approval by Committee.

5.0 Funding Strategy Statement

5.1 The Funding Strategy Statement (FSS) has been prepared based on prevailing CIPFA guidance and reviewed by the Fund actuary.

5.2 The review and updating of the FSS follows an earlier review and employer consultation during 2019 to amend the FSS in respect of Exit Credit legislation and to facilitate pass-through arrangements for new contracts/admission agreements. The proposed key changes to the FSS considered as part of the 2019 actuarial valuation were outlined to Committee in January 2020.

5.3 The Fund consulted with all participating employers on the proposed amendments to the FSS and the associated Termination Policy. This consultation period closed on 14 February and the Fund received responses from 3 employers. Having considered the responses, the Fund does not intend to make any material changes to the FSS, however minor wording amendments or points of clarification have been made.

5.4 Committee is asked to review and approve the FSS and Termination Policy, as attached in appendices B and C.

6.0 Financial implications

6.1 This report has financial implications for employers and guarantors in that the outcomes will drive contribution requirements as part of the 2019 actuarial valuation, effective from 1 April 2020.

7.0 Legal implications

7.1 The report contains no direct legal implications.

8.0 Equalities implications

8.1 The report contains no direct equalities implications.

9.0 Environmental implications

9.1 The report contains no direct environmental implications.

10.0 Human resources implications

10.1 The report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 The report contains no direct corporate landlord implications.

12.0 Schedule of appendices

12.1 Appendix A: Employer Risk Management Framework

12.2 Appendix B: Funding Strategy Statement

12.3 Appendix C: Termination Policy

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EMPLOYERS: RISK MANAGEMENT FRAMEWORK

APRIL 2020

West Midlands Pension Fund

1 INTRODUCTION

The Fund's employer base has changed significantly over recent years and is increasingly diverse and includes a large number of employers with more limited capacity and access to financial support for their pension obligations. In our view, the covenant review, and its application to all employers, is of increased importance and will help ensure all employers have an appropriate funding strategy. In addition, the process helps to ensure, as far as possible, that employers are protected from the risk that other employers default on their pension liabilities in the future. The Fund has in place a framework to monitor the covenant of all of its participating employers. This is with a view to mitigating the risk exposure of all employers in the event of the failure, wind-up or cessation of a scheme employer with an unpaid funding deficit. For the purpose of this document, we reflect all employer types (scheduled as well as admission bodies).

The preparation of this Employer Risk Management Framework has been based on the latest CIPFA guidance and specifically that covering employer risk in the LGPS.

The most recent version of this document was reviewed in conjunction with the 2019 actuarial valuation and was adopted and approved on xx March 2020.

1.1 **Employer type**

The scheme employer base consists, broadly, of three types of employer:

- Scheduled bodies
  - A local authority, police and fire service bodies, universities, colleges and academies
- Resolution bodies
  - Parish councils and companies under the control of a scheme employer
- Admission bodies
  - A body that is providing a service or assets in connection with the exercise of a function of a scheme employer, or a body which provides a public service which operates otherwise than for the purpose of gain and has sufficient links with a scheme employer for the body and the scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent upon the scheme employer or otherwise).

1.2 **Employer covenant**

An employer's covenant is its legal obligation and ability to fund the scheme now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the scheme is exposed, including underfunding, longevity, investment and market forces, which impact on the Fund's ability to continue to pay pensions to all members over the long term.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is important to identify increasing exposures to risk. The assessment and monitoring of employer covenant is covered in more detail later in this document.

1.3 **Risk**

- Risk can be defined as the combination of the probability of an event and its consequences:
- Probability: the Fund considers the likelihood of the employer becoming unable to meet its obligations to the Fund, for example due to:
  - admission agreement prematurely terminated (eg, due to the end of a contract) and employees are not transferred to another employer;
  - the number of active members falls to zero; and

  - material reduction in the employer's ability to make ongoing payments, evidenced by poor or weakened covenant indicators, increasing the potential for external financial support for insolvency or cessation of the employer.
- Consequences: where employers are unable to make payments or meet their liabilities and there is no cover provided by a guarantor (where applicable) or other body, these liabilities will then fall to the Fund as a whole – ie, the other Fund employers. The impact of this, ie, the severity of the consequence, is linked to the size of the deficit from the failed employer.

Risk management requires identification and assessment of risks (the 'inherent risks') and responding to them.

Response to risk; a response may involve one or more of the following:

- Tolerating risk.
- Treating risk in an appropriate way to constrain the risk to an acceptable level.
- Transferring the risk.
- Terminating the activity giving rise to the risk.

This document outlines in more detail the strategies the Fund will consider to manage the employer risks identified.

The level of risk remaining after a review is that which has been accepted (the 'residual risk') and is the exposure in respect of that risk, and should be acceptable and justifiable.

2 IDENTIFYING RISK

2.1 **Identifying risk**

The West Midlands Pension Fund (the Fund) is exposed to a number of risks associated with employers. In order to mitigate these risks, it is necessary to identify them and assess them so as to ascertain which are deemed tolerable and those that need to be addressed.

Broadly speaking, the key risks specific to the Fund are as follows:

Financial
Market fluctuations, investment returns and pay/price inflation, impact on funding levels and the contributions required to meet future benefit costs.

Demographic
Increased longevity and the cost of early retirements/ death-in-service.

Regulatory
Changes to LGPS regulations and pension entitlements and/or wider legislative change impact benefit and/or administration costs.

Governance
Administering authority unaware of structural changes in employer's membership, administering authority not advised of an employer closing to new entrants, and an employer ceasing to exist with insufficient funding or adequacy of a bond.

Employer strength and cashflow
Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy.

Many of the risks identified are beyond the control of the Fund and, therefore, it is important to target those which are material and can be influenced when mitigating risk. With this in mind, the focus of this document is in the areas of governance and employers' activities or actions, but consideration should also be given to the cost of early retirements and death in service and the potential for the transfer of such risk through appropriate insurance.

The Fund has published a *'Guide to Managing Pension Liabilities'* which provides further details of how employers might incur additional pension liabilities and steps to mitigate these.

2.2 Levels of risk

Examples of the typical levels of risk presented by different types of employer and driven by risk indicators classified as low, medium and high are illustrated below:

Risk levels (general rule of thumb)

Low risk	Medium risk	High risk
- Main councils - Government-backed organisations	- Academies - Higher education organisations - Scheduled and admitted bodies with access to financial support	- Distressed third sector contractor - Small charities - Employers with significant pension obligations vs size of employer
and	and	with some of the following
- Strong financial performance - Easily able to defray pension obligations - All pension contributions paid on time and financial information received when requested (including employer covenant return)	- Satisfactory evidence of financial security or - Security arrangements in place to provide financial support, if required or - Employer body with small deficit or surplus of assets over liabilities	- No external funding guarantee or reserves - Potentially limited lifespan or fixed contract term - No active contributors and/or is closed - Relies on voluntary or charitable source of income - Deterioration in employer strength and/or cashflow - Employer cannot easily defray pension obligations - Failure to pay contributions to the Fund when due or failure to provide financial information as requested (including employer covenant return)
	and	
	- Employer able to fund repayment but represents significant cost to the employer body; - All pension contributions paid on time and financial information received when requested (including employer covenant return)	

2.3 **Nature of risk**

The principal risk facing the West Midlands Pension Fund within the context of this framework is the inability of an employer to be able to meet its regular pension contributions and/or its liabilities upon termination. A deficit upon cessation of an employer might arise in the following scenarios:

a) Merger/employer restructuring.

b) Financial constraint arising, leading to non-payment or underpayment of pension contributions.

c) Non-payment of contributions to the Fund by an admitted employer prior to closure.

d) Premature termination of a contract where market values are depressed relative to the liabilities in respect of the admission body, assessed on consistent assumptions to those adopted in the previous actuarial valuation.

e) The last active member leaves (following which current regulations require a termination assessment).

f) The reality is less favourable than the assumptions used in setting contribution rates for that employer, – for instance, higher than expected rates of early retirement or excessive pay increases.

g) Additional liabilities created as a result of the body closing, in particular the possible payment of immediate retirement benefits to all those over age 55 at that time.

h) A pre-existing deficit in the Fund (past service liability).

i) A change from open to closed admission body status.

3 ASSESSMENT OF RISK

3.1 **Risk review**

The Pensions Regulator has set out prescribed guidelines detailing the assessment criteria upon which an employer should be reviewed:

- Nature and prospects of the employer's industry.
- Employer's competitive position and relative size.
- Management ability and track record.
- Financial policy of the employer.
- Profitability, capital structure, cashflow and financial flexibility.
- Employer's credit rating.
- Position of the economy as a whole.

In addition, with a pension scheme in mind, the following areas should be evaluated:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow.
- The relative priority placed on the pension scheme compared to corporate finances.
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

The Pensions Regulator's Code of Practice no. 14 also sets out that the following should be considered:

- Prospects: the forecasts and strategies of the employer are key in respect of the employer's viability; and
- Ability to pay necessary employer contributions.

In effect, The Pensions Regulator's Code (in force from April 2015) places an obligation on employers to provide data to the Fund and on the Fund to establish systems and processes to conduct an employer covenant assessment.

To enable this review, the Fund may require employers to provide information to assess covenant via the annual employer covenant questionnaire and any other information requested by the Fund.

3.2 **Risk criteria**

When considering the risk a particular employer represents, as part of the Fund's ongoing monitoring of potential employer risk events, five assessment criteria or triggers will be considered, as outlined below. Where one or more of these triggers is engaged, for an individual employer, the Fund will undertake a more detailed review. These criteria, when analysed in conjunction with the strength of the employer covenant (Section 5), will provide the basis for the framework upon which risk will be continually assessed and employer stability monitored.

1. Employer with less than five active members
2. Employer where significant member movements are imminent
3. Employer with a known contract length of 18 months or less
4. Employer with a funding deficit that is outside the Fund's acceptable ratios, for example deficit relative to the size of employer turnover, surplus cash generation of assets
5. Employer with a funding level identified at the last actuarial valuation of less than 80%

4 MONITORING/SCREENING OF THE EMPLOYER COVENANT

4.1 **Assessing the employer covenant**

The employer covenant is assessed objectively and the ability of employers or guarantors to meet their obligations are viewed in the context of the Fund's exposure to risk and volatility, while preserving the interests of other employers within the Fund.
The monitoring of covenant strength by itself does not strengthen the Fund's security; however, it does enable the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach with a view to reminding employers of obligations and managing their expectations.

4.2 The Fund follows a documented process for analysing employer covenant, which ultimately categorises employers into three broad risk groups or ratings (high, medium and low risk). These risk groups drive funding assumptions, funding shortfall recovery periods and, in some cases, measures taken by the Fund to reduce employer exposure to investment and liability risks.

4.3 In reaching a rating for each employer participating in the Fund, the framework incorpo rates three key tiers in terms of metrics upon which the assessment is based.

4.3.1 The first tier is that of the core financial health assessment undertaken internally by the Fund. This assessment is based upon publicly available information for each employer (eg, annual report and accounts) and also in some instances information obtained via a Fund questionnaire sent to the relevant employer.

Once collated, this information is analysed with the following as examples of the the key metrics upon which the rating is based:

- **Structural metrics**
  - Type of body and its origins;
  - Nature and enforceability of legal agreements;
  - Significant member movements imminent;
  - Five or fewer active members; and
  - 18 months or less remaining of their contract.
- **Financial metrics**
  - Assessment of employer's performance (profit and loss, balance sheet and cashflow statement) relative to size of pension obligations;
  - Reference to specific ratings of the employer relevant to the nature of the employer (eg, academies, further education);
  - The payment history of the employer with respect to amounts payable to the Fund;
  - Provision of financial information on a timely basis;
  - Likelihood of insolvency;
  - Whether there is a guarantor/bond in place; and
  - Contingent assets.
- **Climate change**

  Aligned to the 2019 actuarial valuation, the Fund started to gather data and incorporate initial assessment of potential exposure to climate change based on a framework of potential risks. This centres around exposure of participating employers to physical and transitional climate risks with a view to developing an understanding of potential risks across the employer base as outlined in the chart below.

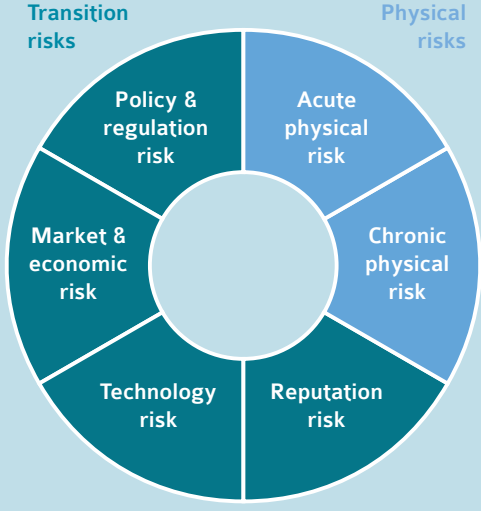
  It also extends to consideration of how the transition to a low carbon economy and/or physical risk (such as flooding) could impact employers in terms of their business model and ultimately the underlying long-term covenant in respect of the Fund.

Climate risks

Policy & regulation risk: Compliance costs; stranded assets; asset impairment; restrictions & limitations on carbon intensive assets; and asset depreciation.

Market & economic risk: Company or securities valuations; asset impairment; viability of certain business models; and credit rating implications.

Technology risk: Write-offs for investments in disrupted technologies; required investment in new technologies; and process change costs to accommodate new technologies.



Acute physical risk: Short lived extreme weather impacts. Disruptions to operations, transportation, supply chains etc. Damage to physical assets and impacts on insurance liabilities.

Chronic physical risk: Impacts due to slow insidious change such as increasing temperature or water stress. Degradation or limitations on resource availability e.g. labour, natural resources etc.

Reputation risk: Damage to brand value or reputation resulting in lost revenue and additional expenditures e.g. corporate affairs, litigation etc.

The climate risk assessed has been carried out at both individual employer and sectoral level recognising that this is an area where identification and consideration of potential risks, together with the strategies for managing, are fast developing.

This forms part of a range of factors which may be discussed with employers, subject to the Fund's initial assessment of potential exposure.

A further stage to the core financial health assessment involves moderation by Fund officers to allow for any other relevant financial or structural information notified to the Fund.

4.3.2 The second tier of the covenant monitoring process is sector-specific. This again is based upon available information and responses to the Fund questionnaire. Aligned to this information, the Fund has developed a set of KPIs (scorecards) to assist in measuring covenant strength and affordability of pension contributions. These scorecards also allow for sector-specific information such as the Department of Education guarantee for academies and the application of the further education insolvency regime to be reflected in the risk rating.

The questionnaires may also include a section specific to climate-related risks as outlined in section 4.3.1.

4.3.3 The final tier involves an independent credit rating via Dun and Bradstreet (where available). From the Dun and Bradstreet analysis, the Fund obtains four separate ratings to include a financial strength indicator and an overall risk indicator.

In order to accurately monitor employer covenant, it is necessary for research to be carried out into employers' financial standing, strategy and forecasts. Whilst the Fund will routinely collect and request information to help inform the assessment, employers are expected to notify the Fund at the earliest opportunity of any action or event which could impact their employer covenant. Focus is placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

An overview of the framework upon which an employer's covenant will be monitored is detailed in the diagram on page 6 (4.6). This provides the basis for actions to be taken and ultimately the management of risk, covered in the next section.

4.4 Frequency of monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. It is important that the relative financial strength of employers is reviewed regularly to allow for any significant change in relative risk between employer groups. There will be instances where known 'events' or individual employer circumstances are to be taken into consideration, and they will be incorporated during moderation into the monitoring framework.

In summary, a high level outline of the process involved around the frequency of monitoring is set out below:

- **Routine monitoring**
  - Triennial valuation – review of employer covenant for all employers, prioritised by size of deficit and risk criteria (high risk/weak covenant first);
  - Annual employer covenant return – a desktop review of covenant strength followed by a call or meeting if required to clarify information;

- **Monitoring by exception**
  - Higher risk employers – subject to a more frequent review either six-monthly or quarterly; and
- **Crisis monitoring**
  - Regular dialogue and information flow between the Fund and employer.

4.5 **Frequency of monitoring**

It is recognised that meetings need to be tailored to each employer's circumstances, and may need to follow a further exchange of information to supplement the Fund's assessment of the employer.

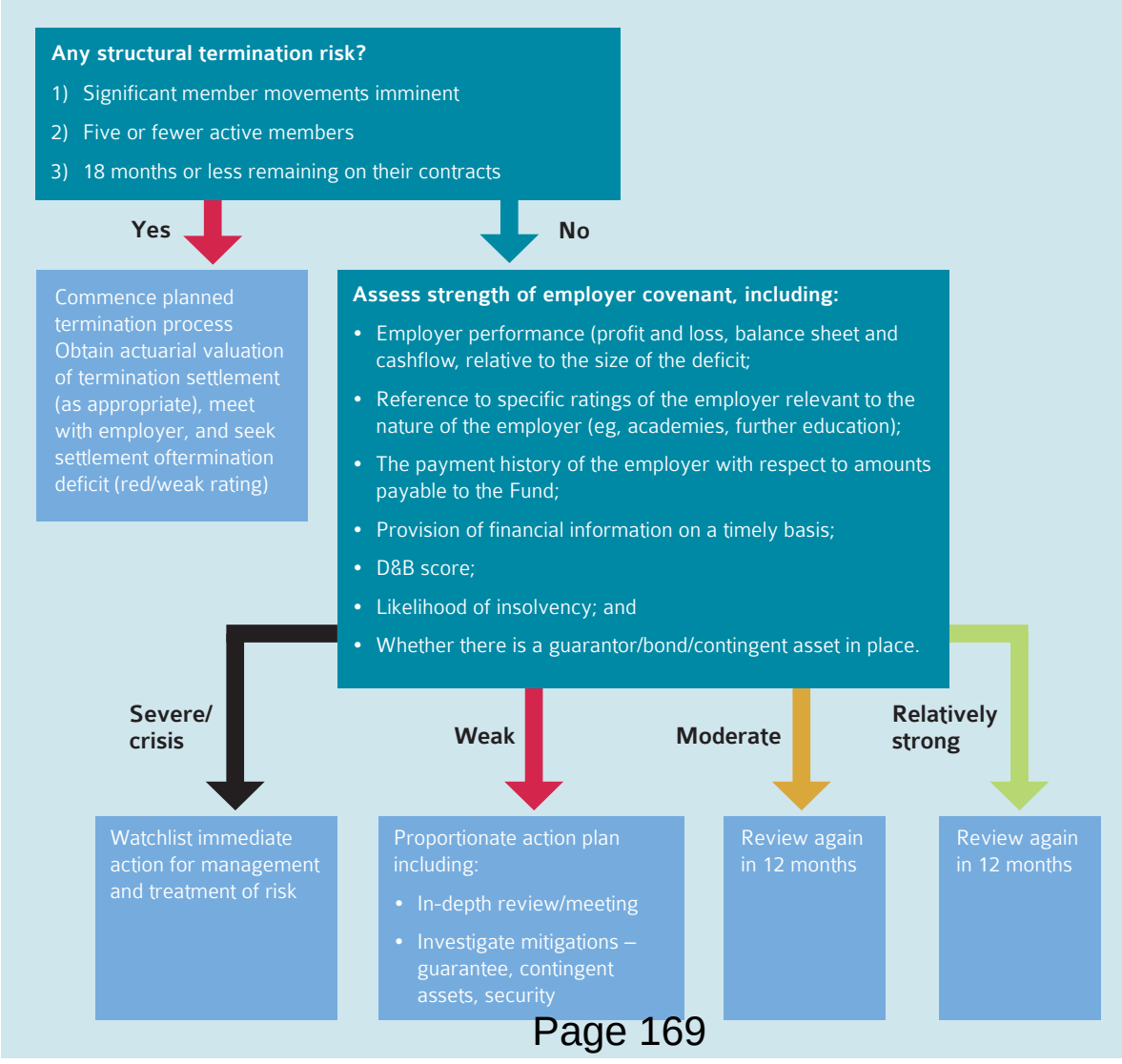
The timing of such information requests is co-ordinated so as to align with other statutory returns to capture up-to-date and readily available information quickly.

Discussion will often centre around termination debt, affordability and contingent security which will help the Fund and the employer to respond to the risk identified, in an appropriate manner.

An action plan will be agreed following each meeting.

A period of extended monitoring and information exchange may be agreed during the period of risk review.

4.6 **Guide towards monitoring of the employer covenant**



5 MANAGEMENT OF RISK

5.1 Management of risk

The focus of the Fund's risk management is the identification and treatment of the risks. It will be a regular and evolving process which is carried out in conjunction with employers. This management of risk is not a linear process, rather it is the balancing of a number of interwoven elements which interact with each other and which have to be in balance with each other if the management is to be effective.

The Fund is not party to outsourcing contracts which would normally contain any agreement on risk sharing for pension liabilities.

5.2 Initial steps: transferee admission bodies

After the decision to outsource a service has been taken and before the tender documentation is finalised, the Fund currently employs certain steps to minimise the exposure to any future risk.

The Pension and Lifetime Savings Association (PLSA) has produced guidance *´A best practice guide for employers participating in the LGPS´* which covers these aspects in more detail.

Pre-contract award

- The scheme employer requests the actuarial assessment (employer rate and bond) for tender and submits the staff data file (in the required format) available on the Fund website http://www.wmpfonline.com/becomingafundemployer
- Fund request the actuarial assessment and the appropriate invoice is raised to the scheme employer for the actuarial fees
- Scheme employer confirms the details of the successful bidder and the value of bond (if required)

Post-contract award

- Successful bidder (contractor) applies to the Fund for admission body status http://www.wmpfonline.com/becomingafundemployer
- City of Wolverhampton Council conduct an audit to review the financial strength of the organisation based on their accounts and other key criteria (review and risk scoring)
- Scheme employer and contractor are issued with an engrossed agreement to sign and seal (if a bond is required the contractor needs to have confirmed the details of the bondsmen and the bond is issued with the engrossed admission agreement) for all parties to sign
- The Fund will require confirmation of a suitable guarantor for any admission body application

Termination of contract

- On the termination of the contract, the Fund require an actuarial assessment of the pension exit deficit. An invoice for any pension liabilities and actuarial fees will be issued to the contractor.

5.3 Bond/Guarantee

If a private sector organisation becomes insolvent, it may be unable to meet its funding obligations to the Fund. Allowing organisations to become an admission body, therefore, creates an element of risk for the Fund, for other employers participating in the Fund and, in particular, for the outsourcing employing body.

If a risk assessment identifies a material level of risk, the outsourcing employing body can require the organisation to provide an indemnity or bond to protect against the identified risk.

Outsourcing employing bodies should regularly review the level of risk relating to an admission agreement, and require the admission body to put in place a revised bond or indemnity as appropriate. The Fund itself does not use bonds.

The bond is the third legal instrument required in respect of an organisation's admission to the LGPS (together with the service contract and the admission agreement). Organisations should consider employer rate and/or cost of bonds when making tender. Therefore, it is ideal these increased costs are considered early in contract/tender discussions.

As an alternative to a bond, the Fund will allow the organisation in question to set up an escrow account for the equivalent of the bond amount calculated by the Fund actuary. The Fund will require satisfactory evidence of such an account particularly on the understanding that it can only be closed or terminated via mutual consent.

5.4 Initial steps: other employers

- As with transferee admission bodies, the Fund will require provision of information upon inception of any new employer
- City of Wolverhampton Council will conduct an audit to review the financial strength of the organisation based on their report and accounts and other key criteria
- A bond and/or a guarantee may be sought dependent on the organisation's circumstances

5.5 Risk mitigation

The following tools are available as part of agreeing the triennial valuation (and recovery plan contributions) or to manage risk presented by changes to the employer covenant.

5.5.1 Shortened recovery period

The Fund reserves the right to shorten the deficit recovery periods set out in the Funding Strategy Statement (FSS), where appropriate, dependent on the strength of the employer's covenant, its financial stability and future prospects.

In doing so, the Fund makes provision for any potential liability to be recouped over a shorter timescale, particularly where there is a risk the body in question may cease to exist. The shortening of the recovery period will increase employer contributions and the impact of this on the employer will be considered in terms of its affordability.

5.5.2 Higher funding target

Consistent with the Funding Strategy Statement (FSS), the funding objective for triennial actuarial valuations is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay.

In practice, each employer's position is assessed separately and their individual rates take into account the differing circumstances of each employer and the funding plan covered in the FSS.

It is an avenue open to the Fund that contributions for an employer, where there is a weak employer covenant and an associated concern, could be set relative to the funding target in excess of 100% of the liabilities. This higher target represents a risk premium against potential additional liabilities on failure of that employer. For example, the employer contributions could be based upon a funding target of 110% of projected accrued liabilities or set dependant upon the Fund's view towards each employer's risk.

As part of the 2019 actuarial valuation, employers have been allocated a risk category which drives the inclusion and level of a volatility reserve to increase the funding target for some employers.

5.5.3 **Contingent assets and security**

Contingent assets are assets which exist upon the occurrence of one or more specified future events, at the bequest of the Fund – for instance, the failure to achieve a specified funding level. They are not included as scheme assets, for the purpose of assessing whether a scheme meets its funding target, until they are transferred to the scheme. Examples of contingent assets include:

- a known guarantor (existing employer), which agrees to cover all liabilities, or a proportion of those liabilities, arising upon termination (the contingent event). This can take place through the absorption of those liabilities by the guarantor to form part of its own liabilities or through the payment of a specified amount.
- security over other assets – for instance, property or securities, such that the asset is transferred to the Fund if the contingent event occurs.
- a bank guarantee – legal agreement from a bank (or other financial institution) to cover a specified amount payable on occurence of the contingent event.
- a letter of credit or a bond (see 5.3).
- sterling cash put aside in a bank account whereby some or all of the cash would be released to the Fund on the occurrence of the contingent event – for example, an escrow account.

5.5.4 **Insurance arrangements**

It may be possible for the Fund to insure against the risk exposure of individual employers or certain defined benefits. Examples of these arrangements include buy-outs (involving a financial transfer to an appropriate financial institution whereby the sponsoring employer/Fund pays a fixed amount to free itself from liabilities relating to the specified arrangement) or insurance of ill-health costs (to protect employers exposed to the significant strain of costs arising from ill-health early retirement).

5.5.5 **Contribution affordability**

Through assessment and dialogue with employers, as part of each triennial valuation, the Fund will consider contribution affordability. Where issues are identified, the Fund will consider phasing any increases in contribution rates.

6 EMPLOYER RISK EVENT

6.1 Treatment of materialised risk

The Fund recognises that there will be instances where, despite the monitoring of employer covenant and steps taken to both manage and mitigate risk (where practical), this risk may materialise. As identified previously, the principal risk facing the West Midlands Pension Fund is the inability of an employer to be able to meet its liabilities upon cessation. Therefore, a prescribed set of measures have been agreed to respond to this eventuality to minimise the impact on the Fund.

6.2 Cessation of an employer with the Fund

In the event of cessation, for any one of the reasons covered in section 2.3, it will be necessary for the Fund actuary to calculate the associated deficit on an ongoing or a least-risk basis (dependent on the circumstances of that employer and in accordance with the *Funding Strategy Statement*). The organisation in question will be responsible for paying the actuary's fee for this work, unless in exceptional financial circumstances, whereby the Fund takes the view the cost will be absorbed by the Fund.

The Fund will request payment of the total deficit upon cessation; however, in certain circumstances it may not be possible for an organisation to pay the total cessation liabilities in one lump-sum. In this scenario, the Fund would request the organisation provides in the first instance evidence of their financial position and prospects, eg, latest management accounts and may, in certain circumstances, at the discretion of the administering authority, and based on the advice of the actuary, enable an exit payment plan.

6.3 Admission bodies

6.3.1 Closed admission agreement where no active members remain in the Fund

A closed admission agreement relates only to a fixed population of employees. Only those employees who transferred to the organisation from the outsourcing employing body can remain members of the LGPS through the admission agreement. Therefore, upon cessation of the last active member of a closed agreement, no further active members can be admitted and the approach for such cases would be the same as with 'Cessation of an employer with the Fund' detailed in section 6.2.

6.3.2 Open admission agreement where no active members remain in the Fund

An open agreement allows any employee of the contractor involved in the provision of the outsourced services to become a member of the LGPS. For example, new recruits the contractor employs in the provision of the outsourced service may become members of the LGPS.

Where an admission agreement is open (or for scheme employers) and the last active member ceases membership of the scheme, the Fund will approach the relevant employer with regards to its intentions for bringing in new active members. Where an intention to allow new active members to join the scheme is identified, the Fund's policy is to allow the employer six months from the date the active member left to admit such members. During this six-month period, the Fund will require continued payment of any deficit recovery contributions payable by the employer.

In the event an employer with an open admission agreement, or a scheme employer exceeds the six-month period without any active members having joined the scheme under that agreement, the employer will cease participation in the scheme and notified by the Fund accordingly.

6.4 **Winding-up, insolvency, or cessation of an employer**

In the event an employer ceases to exist, the Fund would act as a creditor and appoint an agent to reclaim monies owed by whatever means necessary.

The Fund expects early engagement from employers when they are approaching financial difficulty, and the Fund may consider appointing their own advisors with regards to securing the debt. The Fund will seek to exercise all rights as main creditor of the employer where appropriate to do so.

6.5 **Independent financial and governance standing review by third party auditor**

In addition to the Fund taking preventative steps towards risk and responding as it sees is appropriate to address materialising risk, it may be necessary for the Fund to appoint a third party agent to provide advice and potentially conduct an independent review. This review would be centred upon the financial measures and wider governance integrity of the organisation, particularly with a view to instances of substandard management or negligent practice.

The appraisal also provides the Fund with an external audit of the monitoring and risk aversion process employed, which is aimed at preserving the interests of all other participating employers.

The key objectives of this review will be to evaluate the financial standing and underlying governance arrangements, specifically:

- an assessment of the strength of the balance sheet and, based on this, drawing conclusions on the reasonableness of proposed termination payments. This element of the review will include, for example, structure/liquidity ratios; and
- a high-level evaluation of the body's overall governance structures and the adequacy of management's medium term planning arrangements in addressing weaknesses and risks; and
- to develop an assessment methodology that can be applied to employers in assessing their capability and capacity to continue to manage and meet pension liabilities in the future.

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FUNDING STRATEGY STATEMENT
MARCH 2020

West Midlands Pension Fund

CONTENTS

1 INTRODUCTION

1.1 Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain a Funding Strategy Statement (FSS) having regard to the guidance produced by The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Fund's Investment Strategy Statement (ISS). This FSS has been prepared by the West Midlands Pension Fund based on the latest CIPFA guidance in accordance with the regulations issued in September 2016 and following consultation with appropriate persons. In line with the regulations administering authorities are required to ensure contributions are set at a level to achieve Fund solvency and long-term cost efficiency.

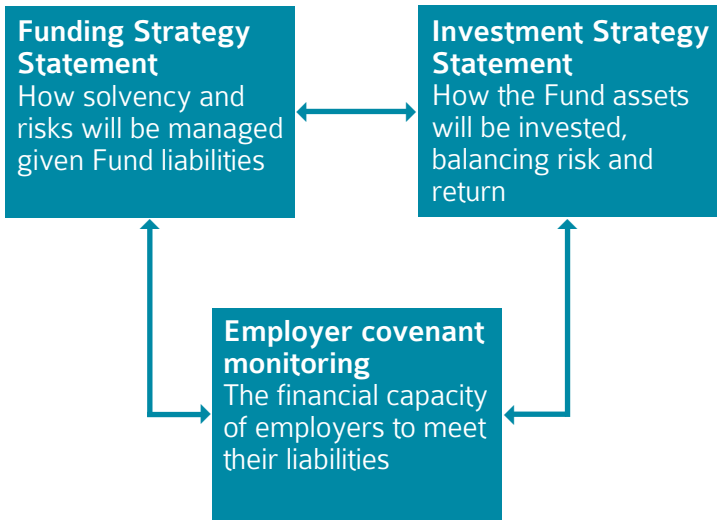
This FSS has been developed for the West Midlands Pension Fund in conjunction with the 2019 actuarial valuation. It was adopted and approved following consultation, on 25 March 2020.

This statement updates and replaces the April 2019 FSS and all previous statements and policies on funding. The 2020 statement incorporates an evidence-based review of West Midlands' membership and employers in the context of regulations and guidance in force at the time.

Integrated Funding Framework

1.2 The FSS is supported by the Investment Strategy Statement (ISS) and the Fund's employer covenant monitoring framework. Together these ensure an integrated approach to funding strategy and risk management supporting the Fund in meeting the regulatory funding requirements.

1.3 The statements and framework relate as follows:



1.4 The purpose of the FSS is to summarise the Fund's approach to ensuring contributions are sufficient to meet pension liabilities. The parameters set within determine:

- the rates and adjustments certificate (confirming employer contribution rates for the period to the next triennial valuation);
- funding requirement on employer admissions and cessations; and
- actuarial factors for valuing bulk transfers, early retirement costs and the costs of additional benefits to members (for example, on purchase of added years' service).

1.5 The benefits payable under the LGPS are guaranteed by statute. The scheme is a defined benefit arrangement with a final salary element for service accrued prior to 1 April 2014 and career average revalued earnings ('CARE') benefits accruing on and after this date. There is also a '50:50' option under which members can elect to pay 50% of the contribution rate to accrue 50% of the benefits.

1.6 The FSS reflects the statutory nature of the Local Government Pension Scheme (LGPS), particularly the defined benefits payable and the benefit guarantee. The FSS sets out how benefits will be funded over the long term through an accountable, transparent process with full disclosure of valuation methodology and assumptions.

Employer Contribution Requirements

1.7 The required levels of employee contributions are specified in the regulations. Employer contributions are determined in accordance with the LGPS regulations, following an actuarial valuation completed every three years by the actuary. The valuation is carried out based on the administering authority's funding strategy statement and leads to production of a rates and adjustments actuarial certificate, specifying the 'primary' and 'secondary' rate of the employer's contribution; these are defined below

Primary Rate

The 'primary rate' for an employer is the contribution rate required to meet the cost of the future accrual of benefits, allowing for employer membership profile. The primary rate for the whole fund is the weighted average (by pensionable payroll) of the individual employer's primary rates.

The Fund, like many other similar public and private sector funded schemes, had a gap between its assets and pension liabilities (a funding shortfall) on review at 31 March 2019. Although funding levels have improved since the last review in 2016, a number of factors have contributed to the development of the funding gap over time, most notably:

- increases in life expectancy and pensions longevity; and
- falling long-term interest rates and the expectations for future investment returns.

As funding level varies over time and between employers, employers may have a funding shortfall or surplus on review at the triennial valuation.

The FSS addresses the recovery of the funding shortfall for those employers in deficit and outlines how contribution requirements are considered where a surplus exists at the valuation date. This is captured within the secondary rate.

Secondary Rate

The 'secondary rate' is an adjustment to the primary rate to arrive at the total rate of contribution each employer is required to pay. The secondary rate may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation. In line with previous valuations, each employer within the West Midlands Pension Fund will have a cash adjustment to the primary rate to reflect their funding level. In certain circumstances secondary contributions may be expressed as a percentage of payroll as determined by the Fund.

The secondary rate for the whole Fund in each of the three years is the total monetary adjustment through individual employer secondary rates.

Funding Risks

The FSS faces a number of risks in meeting its aim of ensuring Fund solvency and long-term cost efficiency, most notably:

- funding deterioration on lower than anticipated investment returns;
- increasing benefit costs from higher rates of price inflation and increasing life expectancy;
- contribution shortfall following deterioration in employer covenant;
- employer restructuring leading to changing membership profile, maturity and/or covenant;
- changing scheme regulations and guidance which affect benefits or require a change in funding policy.

1.8 Following the McCloud/Sargeant ruling and in line with the requirements set out by the Ministry of Housing, Communities and Local Government (MHCLG) in August 2019, the Fund has made an allowance for the potential impact upon scheme benefits which may occur following associated remedial action.

Merger of the West Midlands LGPS Pension Funds

1.9 Following a process of public consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), Regulations were laid before parliament providing for the merger of the former West Midlands Integrated Transport Authority (WMITA) pension fund into that of the main West Midlands Pension Fund. Those regulations came into force on 8 November 2019 and apply retrospectively to effect merger from 1 April 2019.

In conjunction with the merger, former employers of the WMITA pension fund now participate in the main West Midlands Pension Fund with associated assets and liabilities transferred to two separate Admission Body Funds (ABF). For the purposes of the 2019 actuarial valuation (and thereafter) the associated funding strategy statements for the new separate ABF are included as appendices to this FSS (appendices 2 and 3).

Future Review

1.10 This policy statement will next be reviewed in detail ahead of completion of the next triennial valuation due 31 March 2022. Key funding principles will be reviewed and monitored on an annual basis and updated following consultation and as a matter of course in the event of significant change in scheme regulation and guidance.

2 AIMS AND PURPOSES OF THE FUND

2.1 The aims and purpose of a pension fund operating within the Local Government Pension Scheme (LGPS) are set out in the LGPS Regulations and the Public Service Pension Act 2013. With regard to funding, they can be summarised as follows.

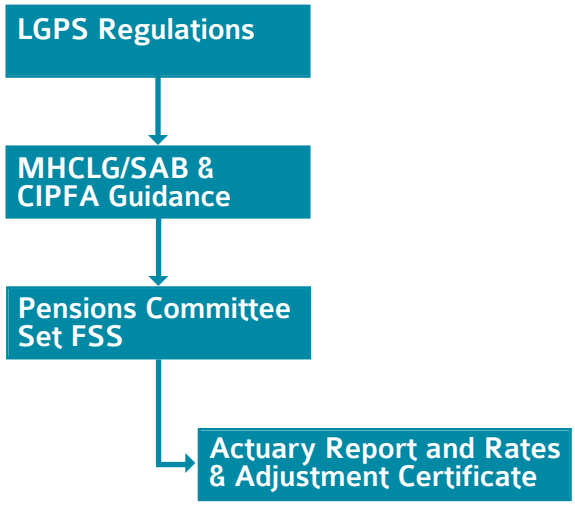
2.2 The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable primary and total contribution rates to be kept as nearly constant as possible; and
- seek returns on investment within reasonable risk parameters.

2.3 The purpose of the Fund is to:

- receive and invest monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses, as defined in the LGPS regulations and as required in the LGPS (Management and Investment of Funds) Regulations 2016.

2.4 The regulatory and governance framework in place to manage funding policy includes:



3 PURPOSE OF THE FUNDING STRATEGY STATEMENT

3.1 The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, together with how employers pay contributions to ensure their own liabilities are fully funded. The purpose of this FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' liabilities are met going forward;
- to take a prudent long-term view of funding those liabilities;
- to ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.

3.2 In line with the aims and purpose of the Fund, the funding policy objectives are:

- to ensure that pension benefits can be paid as and when they fall due over the lifetime of the Fund;
- to ensure the solvency of the Fund;
- to set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- to build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- to adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

3.3 The FSS and wider integrated funding risk framework are designed to ensure the funding strategy is both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting stakeholder objectives that need to be balanced and reconciled. Whilst the funding strategy applicable to individual employers is reflected in the FSS, its focus at all times are on those actions that are in the best long-term interests of the Fund. Consequently, the FSS is a single all-employer strategy for the administering authority to implement and maintain, with approaches for different employer category and admission body fund contained within.

3.4 This statement and appendices set out how the administering authority balances the potential conflicting areas of stability and affordability of contributions, transparency of process and prudence of funding. The Fund policies on funding in respect of the following are contained within:

- new employer admissions to the Fund;
- employers leaving the Fund (on cessation at termination);
- bulk transfers; and
- management of funding surplus.

Consultation Process

3.5 LGPS regulations require the administering authority to consult with such persons it considers appropriate in the maintenance and review of the FSS. CIPFA provides further guidance that this must include meaningful dialogue at officer and elected member level, with council tax raising authorities and with corresponding representatives of participating employers.

In determining the funding and contribution strategy contained within the FSS, the administering authority has had regard to:

- the responses made to the FSS consultation with employers, representatives and other interested parties;
- relevant guidance issued by the CIPFA Pensions Panel;
- the need to balance a desire to attain the funding target as soon as possible against the short-term cash constraints of participating employers; and
- the administering authority's views on the relative strength of the participating employers' covenants, supported by independent advisers as required.

As part of the 2019 valuation, the Fund undertook a number of employer briefing sessions (five in July 2019 and ten in November 2019) and outlined funding strategy at its 2019 AGM. Both covered key changes to the FSS from the prior version dated April 2019.
A copy of the FSS was issued to each employer, the Fund's Pensions Committee (elected members), Local Pensions Board (including member and employer representatives), actuary, investment and risk advisers and other interested parties including the Fund employer peer group in January 2020. The Fund also hosted one-to-one consultation meetings with employers, on request.
Where an employer has a guarantee from a statutory body participating in the Fund, or from another organisation approved for that purpose by the administering authority, the administering authority will recognise the requirement for the guarantor to be kept informed of the funding position of the relevant employer, and share funding information with the guarantor on request, unless the employer indicates otherwise in writing to the Fund.

4 RESPONSIBILITIES OF THE KEY PARTIES

4.1 Sound and effective management of funding strategies relies on key parties exercising their statutory responsibilities.

4.2 The administering authority is required to:

- operate the Fund in line with scheme regulations;
- collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in scheme regulations;
- pay from the Fund the relevant entitlements as stipulated in the scheme regulations;
- invest the Fund's assets in accordance with the Fund's ISS and the scheme regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in the regulations to safeguard the Fund against the consequences of employer default;
- manage the valuation process in conjunction with the Fund's actuary;
- prepare and maintain an FSS and an ISS, both after proper consultation with interested parties;
- monitor all aspects of the Fund's performance and funding and amend the FSS/ISS accordingly; and
- Effectively manage any potential conflicts of interest.

4.3 The **individual employer** is required to:

- calculate and deduct contributions from employees' pay correctly;
- pay all ongoing contributions to the administering authority, including employer contributions determined by the Fund actuary and set out in the rates and adjustments certificate, promptly by the due date;
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits and early retirement strain;
- notify the administering authority promptly of any new scheme members and any other changes to membership which may affect future funding requirements; and pay any exit payments on ceasing participation in the Fund;
- comply with all aspects of the Pensions Administration Strategy, within the context of the FSS, relating to funding or payment of contributions, for example (but not limited to):
  - provision of supporting documentation and breakdowns with payment of contributions;
  - maintain optimum data quality to include timely and accurate notification to enable accurate calculations; and
  - notify the Fund in advance of any employer initiatives (e.g. mergers, restructures), policy decisions or practices which could impact on LGPS member benefits.

4.4 **Active scheme members** are required to make contributions into the Fund as set by MHCLG.

4.5 The **Fund actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency having regard to the administering authority FSS and the LGPS regulations;
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory costs, etc.
- provide advice and valuations on the exiting of employers from the Fund;
- provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security against the financial effect on the Fund of employer default;
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations;
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- advise on other actuarial matters affecting the financial position of the Fund.

4.6 **Fund officers** undertake to:

- monitor, review and manage performance against the Fund's integrated risk management (IRM) framework, to include funding, covenant and investment developments; and
- provide regular reporting, as required (but at least on an annual basis) to Pensions Committee and the Local Pensions Board to enable their review of the effectiveness of strategies involved, including specific development arising from the IRM.

5 GENERAL FUNDING AND SOLVENCY CONSIDERATIONS

5.1 The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns (resulting from the investment strategy). To the extent that investment returns may be lower than expected, then higher contributions may be required from employers, and vice versa. Hence, the funding and investment strategy are inextricably linked.

5.2 The cost of benefits payable from the scheme in the future depends on a number of factors which are unknown in advance. Funding policy determines the pace at which contributions are collected from employers to ensure the Fund has sufficient money to pay future pensions promised to members.

5.3 LGPS regulations require each administering authority to achieve Fund solvency and long-term cost efficiency by means of employer contribution rates established by triennial valuation. LGPS administering authorities prudentially seek to achieve an appropriate balance between the income stream from contributions and investments and maintaining the ability to pay pension benefits as and when they fall due over the life of the Fund.

5.4 Securing solvency and long-term cost efficiency is a regulatory requirement and maintaining a constant as possible a primary contribution rate is a desirable outcome. Over time and given stable market conditions, administering authorities are expected to reduce deficit recovery periods.

Solvency

5.5 The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at "such a level as to ensure that the scheme's liabilities can be met as they arise".

It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if the rates of employer contributions are set to target a funding level (assets divided by liabilities) for the whole fund of 100% over appropriate time periods and using appropriate actuarial assumptions.

If the conditions above are met, then it is expected that the Fund will be able to pay scheme benefits as they fall due.

The Fund's actuary is required to report on the solvency of the Funds and recommend future employer contribution rates every three years. In assessing the solvency and employer contribution rates, the actuary must make a number of financial and demographic assumptions. Both the assessment of solvency and the employer contribution rates can be very sensitive to these assumptions.

The regulations specify the principles which must be used in the funding strategies. However, it is the responsibility of the administering authority, acting on the advice of the Fund's actuary, to determine the precise approach and the financial and demographic assumptions to be used in the actuarial valuation.

A significant factor in ensuring solvency of the Fund is the payment of contributions by employers, recovery of funding deficits and employer covenant to be able to continue to make payments required by the Fund.

The Fund carries out regular employer covenant reviews based on a range of key financial and non-financial information to monitor financial strength and ability to pay contributions. This is informed by details of funding sources and annual financial services. In addition, membership numbers are regularly reviewed to monitor membership maturity. The results of the covenant review are used to categorise employers on risk level, with details being provided to the Fund's actuary to inform the actuarial valuation.

As required under Section 13(4)(c) of the Public Service Pensions Act, the Ministry of Housing, Communities and Local Government (MHCLG) has appointed GAD to report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Local Government Pension Scheme, so far as relating to the Fund. Such reports must be made following each triennial valuation of the Fund.

Long-Term Cost Efficiency

5.6 The notes to the Public Service Pensions Act 2013 state "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time".

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, the review under Section 13(4)(c) may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

Target Funding and Contributions Policy

5.7 The LGPS regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and advising on assumptions used, is an important feature in determining the funding requirements.

5.8 The Fund recognises the different characteristics of the variety of participating employer organisations, and will set funding strategy (including funding target and deficit recovery contributions) appropriately having regard to factors such as:

- strength of covenant, and security of future income streams;
- support or guarantee arrangements from scheme employers; and
- prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the Fund to new employees.

5.9 The approach to the actuarial valuation process and key assumptions used at each triennial valuation are consulted upon and the associated employer contribution outcomes form part of the consultation undertaken with the FSS.

5.10 In developing the target funding level and associated contribution requirements, the administering authority has had regard to the subsequent GAD review under Section 13(4)(c) and oversight of the Scheme Advisory Board in England and Wales.

5.11 The principal method and assumptions to be used in the calculation of the funding target and employer contributions are set out in Appendix 1, which also includes further detail on employer categorisation and the integration of the Main Fund funding strategy with the employer covenant monitoring framework. For employers within the separate Admission Body Funds, these are set out in Appendices 2 and 3.

5.12 Underlying the method and assumptions there are two tenets:

- that the scheme is expected to continue for the foreseeable future; and
- favourable investment returns can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

5.13 As part of each valuation, separate employer contribution rates are assessed by the actuary for each participating employer. These rates are assessed taking into account the experience and circumstances of each employer, following, in general, a principle of no cross-subsidy between the various employers in the Fund except where there are explicit exceptions set out and rationale for pooling funding and risks.

5.14 The extent to which the financial health and capacity of employers impacts on their ability to withstand funding risk and increase contributions in the future is taken into account in setting the funding target as is the nature and expected future participation of non-local authority employers in the Fund.

5.15 The period over which an employer's past service deficit is to be recovered (or surplus released) will be dependent on a number of factors, including the type and nature of the employer, any supporting guarantee or other forms of security, such as a charge on assets, where these can be provided.

5.16 The Fund does not believe it appropriate for the total level of contributions by an employer to the Fund to reduce where substantial deficits remain unless there is a compelling reason to do so.

5.17 Phasing of contribution increases may be considered at the discretion of the administering authority where an employer has evidenced affordability limits.

5.18 Any employing body with a surplus of assets over liabilities, sufficient covenant strength, and a local or central government guarantee (to include a defined link back to a local or central government body, such as wholly-owned or arms-length management organisations) may have a reduction in contributions to reflect the surplus. Organisations without sufficient covenant strength i.e. category 3 employers or without a local or central government guarantee will not see a reduction in contributions unless a surplus exists on a minimum risk basis.

5.19 Employers are required to meet all costs of early retirement strain (non ill-health) by immediate capital payment to the Fund.

In all cases, the administering authority reserves the right to apply a different approach as its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole.

Where the administering authority does agree to an alternative contribution plan for a particular employer, this will represent an employer-specific funding plan, and will be documented separately, together with any conditions surrounding this agreement.

On the cessation of an employer's participation in the Fund, the actuary will be asked to make a termination assessment unless the ceasing employer is a pass-through employer. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the Termination Policy.

Links to Investment Policy Set Out in the Investment Strategy Statement (ISS)

5.20 The key financial assumption in calculating the solvency and contribution rates is the rate of return which will be achieved on the Funds' investments.

The Fund's investment strategy has been considered and reviewed in conjunction with the 2019 valuation and the FSS. In particular, the future return expectations of the main asset classes in which the Fund invests have been considered in determining the prudent allowance for future investment returns and extent of reliance on these by employers is outlined in this FSS.

The discount rate(s) adopted in the actuarial valuation is derived by considering the expected rate of investment return which is anticipated to be achieved by the underlying investment strategy.

Future employer contributions levels will be determined, in part, by the extent to which investment returns are delivered in line with the assumptions set in the funding strategy.

As part of the investment strategy review, the future benefit cashflows are considered together with expected contribution income to access the broad mix of assets required to deliver the return required to meet benefit costs whilst balancing risk which could lead to greater future contribution volatility.

The strategic asset allocation and investment risk strategy are documented in the Fund's ISS.

Key Changes Since 2016

5.21 The following key policy changes have been made since the 2016 actuarial valuation, in light of evolving regulation and ongoing dialogue with stakeholders.

- Pooling arrangements for all individual academies within a multi-academy trust (MAT) such that a single primary contribution rate is paid by the MAT.
- Exit credits (from April 2019) – clarification of funding assessment for individual employees upon exit from the Fund. Changes reflected in the Termination Policy (incorporated within Addendum 2) in more detail.

- Ill-health strain cost insurance – at the 2016 actuarial valuation the Fund implemented insurance via a third-party provider for employers on a voluntary basis to insure against the employer strain costs which can arise from a member receiving ill-health early retirement benefits. For the 2019 actuarial valuation, effective from 1 April 2020, the Fund has implemented a captive insurance arrangement, with an "ill-health reserve" retained within the Fund to cover such strain costs. This arrangement involves all participating employers with active members of 1,000 or less.
- Allowances for the potential impact of remedy applicable to benefits payable from the LGPS as a result of the McCloud ruling.

6 IDENTIFICATION AND MANAGEMENT OF RISKS

6.1 Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies key risks specific to the Fund and the management or controls made to mitigate those risks.

Risk	Management/Control
Investment risk - Assets do not deliver the return required to meet the cost of benefits payable from the Fund; potential drivers • Inappropriate asset allocation and risk • Investment market failure • Manager underperformance	• Investment strategy considered in context of Fund liabilities and return requirement set within the funding strategy statement • Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement (ISS), with annual review • Regular monitoring of strategy asset allocation and returns relative to benchmark • Regular monitoring of manager performance
Increasing maturity and benefit cashflow requirement; potential drivers • Falling contribution income and increasing total benefit payments as more members start to draw their benefits • Declining active membership due to change in local authority service delivery models • Increasing reliance on income-generating assets	• Investment strategy review develop based on future benefit cashflow projection • Modelling of investment strategy and future asset income streams • Regular monitoring of membership movements and liability profile
Increasing future benefit costs; potential drivers • Rising levels of future inflation • Increasing life expectancy beyond the level expected for Fund members	• Regular monitoring of funding level • Review of scheme membership experience vs expectations as part of each triennial actuarial valuation, with fund-specific review of mortality experience • Ongoing review and cleanse of member data records to enable accurate and up to date assessment at each triennial valuation

Employer covenant – Employers are unable to meet the cost of pension obligations and contributions to the Fund; potential drivers • Competing pressure and/or reduction in employer's own funding and available financial resources • Service outsourcing or restructuring shifting responsibility for pension obligations, some of which may be delayed in notification to the Fund • Increasing scheme costs	• Regular monitoring of employer financial capacity through employer risk management framework • Notification requirements with the Fund Pensions Administration Strategy and monitoring through the annual employer "health check" • Employer covenant assessment and categorisation to inform funding strategy and the actuarial valuation • Review of guarantee arrangements and exit at each triennial valuation • Up to date admission and termination policies, linked to funding strategy • Review and use of liability pooling arrangements where these may support greater stability in employer contributions • Contingent security arrangements to support cash contributions to the Fund
Changing employer structure within the LGPS – impacting employer covenant and guarantor backing for groups of employers within the scheme; potential drivers • Further increase in academisation and/or change in DfE guarantee to the LGPS • Further outsourcing of services to employers with no local government backing • Uncertainty and change in ability of LGPS funds to recover funding shortfalls in the event of insolvency	• Ongoing monitoring of employer movement and change in status within the scheme • Participation in scheme-wide consultation and review on sectors within the LGPS (academy and tier 3 employers) • Monitoring of regulatory change which may impact the priority of payments to the LGPS, including regular engagement with employers
Changing scheme regulations and guidance – impacting scheme benefits, funding strategy, actuarial valuations, investment strategy; potential drivers include • Changes to scheme benefits from the LGPS cost management process • Changes to the approach for setting actuarial factors (for example on early retirement) • Remedy of benefits paid as a result of emerging cases such as McCloud • GMP reconciliation and equalisation approach for the LGPS • Changing regulations and guidance for administering authorities within the LGPS • Building in an allowance in the funding valuation results	• Ongoing horizon scanning and consideration on the Fund risk register • Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding • Participation in national review and consideration of emerging issues within the LGPS

6.2 At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the timing of future funding valuations consultation and GMP equalisation. These are outlined in the sections below.

- McCloud/Sargeant judgements
  These judgements surrounds transitional protection arrangements in the Judicial and Firefighters schemes deemed age discriminatory.

  A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits.

  At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be, nor the timing of such remedial action.
- Local Government Pension Scheme changes to the local valuation cycle and management of employer risk, including:
  - amendments to the local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle;
  - proposals for flexibility on exit payments;
  - proposals for further policy changes to exit credits; and
  - proposals for changes to the employers required to offer LGPS membership.
- GMP Equalisation

  Lloyd's Banking Group Pensions Trustees Ltd vs Lloyds Bank Plc & Ors judgement on how their Guaranteed Minimum Pensions (GMPs) should be equalised.

6.3 As outlined in the Fund's employer risk management framework, a risk assessment of the sustainability of all employers has been undertaken seeking to establish the risk of an employer failing to meet their pension liabilities. This has been used to determine an appropriate pace of funding. In determining the actual recovery period to apply for any particular employer or employer grouping, the administering authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the employer; and the security of future income streams
- any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc; and
- length of expected period of participation in the Fund.

A number of organisations have significant financial challenges due to falling revenues and/or income streams. The Fund will work with these bodies to ensure all interests are considered and an acceptable funding strategy for the pension liabilities is achieved that does not put the Fund's position at an increased risk. In respect of bodies that have fixed-term funding, the aim is that a fully funded position should be achieved with a high degree of certainty by the end of the funding period.

6.4 **Insurance of Certain Benefits**

The Fund has explored arrangements to help mitigate employer financial implications of unexpected additional ill-health costs, with the primary advantage being the protection of employers with weaker covenants or smaller workforce against the significant strain costs that can arise following an ill-health early retirement. During the consultation, the Fund has considered options for risk mitigation and potential to support employer contribution stability across the Fund as a whole. As a result, effective from 1 April 2020, the Fund has implemented a captive self-insurance mechanism achieved through a reserve based on the existing implicit assumption for ill-health liability exposure adopted by the Fund actuary. This captive arrangement is subject to review at subsequent actuarial valuations and operates as follows:

- The captive ill-health arrangement applies to all employers (both existing and new) with less than 1,000 active members as at the valuation date.
- A defined percentage of contributions or "premiums" are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund actuary in the valuation calculations.
- These premiums are included in the employer's primary rate. The premium for 2020/21 to 2022/23 is less than 1% p.a. and is already included within employer contribution rates.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from Tier 1 & 2 ill-health retirements in respect of active members - i.e. so there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the three years following the valuation date. If any excess premiums over costs are built up in the captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the administering authority based on the advice of the actuary and analysis of experience.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the arrangement. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement is therefore intended to be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review at each valuation depending on experience and the expected ill-health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

The Fund reserves the right to preclude the use of the ill-health captive self-insurance reserve where there is evidence to suggest a higher than anticipated experience for an individual employer. The Fund also reserves the right to enforce Regulation 36(3) of the Regulations as appropriate.

6.4 The Fund has implemented and maintains an internal control framework with regular risk monitoring. This includes advice from appointed advisors (e.g. the Investment Advisory Panel) and quarterly reporting to Pensions Committee for review.

APPENDIX 1: MAIN FUND – METHOD AND ASSUMPTIONS AS AT 31 MARCH 2019

Actuarial Methodology

The actuarial method to be used in the calculation of the funding target is the 'projected unit' method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. Assets are taken into account at their market value. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the 'attained age' method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group in order to maintain a stable rate of contributions.

Employer Asset Share

The Fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the administering authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Pooling of Employers for Funding Purposes

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are typically set for individual employers reflecting their own liabilities and particular circumstances.

However, from 2019 certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common ownership and organisational structures, and to assist in managing employer exposure to individual member liability risks.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Individual academies within a multi-academy trust	Primary rate contributions	Individual secondary contributions aggregated where possible
All participating employers with less than 1,000 active members	Ill-health risk only	Pooling of ill-health risk/experience via captive insurance reserve

The main purpose of pooling is to produce more stable employer contribution levels, and assist employer budgeting. The pooling arrangement will continue to be kept under review at each triennial valuation.

McCloud Provisions

The Local Government Pension Scheme (England and Wales) (LGPS) introduced a new CARE benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from normal retirement age on 1 April 2012 (ie aged 55 or above), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters and the judiciary resulted in unlawful age discrimination. The Government have confirmed that there will need to be a remedy applied to the Local Government Pension Scheme. The actuary has estimated that the cost of remedy for the West Midlands Pension Fund could be in the region of 1.5% of total liabilities. Whilst remedy for the LGPS is yet to be agreed and the impact on individual member benefits and employer costs are unknown at this stage, allowance has been made in considering funding levels and contribution requirements following the 2019 valuation by way of a past service asset reserve of 1.5%.

Financial Assumptions

- **Investment Return (Discount Rate)**

  One of the key valuation assumptions is the discount rate. The actuary estimates the future benefit cashflows which will be made to and from the Fund in the future. These cashflows are then discounted to a present day value using the discount rate. This value is essentially the estimated amount of money which, if invested now would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using a prudent assumption about future investment returns.

  The discount rate assumption of 4.6% pa has been derived using the Fund's current investment strategy assuming investment returns, adjusted to allow for expenses and prudence. Underlying investment return assumptions are based on asset class characteristics and devised based on market yields smoothed six months straddling the valuation date.

  It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The administering authority will incorporate any such adjustments after consultation with the employer and Fund actuary.

  A lower discount rate assumption of 2.6% pa has been used to value orphan liabilities (those no longer linked to an active employer) which are backed by a lower risk investment sub fund.

- **Volatility Reserve**
  A past service volatility reserve is included for those employers in category 2 or 3 (see Employer Categorisation below). This limits reliance on future investment return and represents an addition to the funding target (5% or 10% of liabilities) for those employers who are typically either less able to withstand funding risk; are not directly government-backed; or are on a path to exiting the Fund. In practice, this increases the pace of funding and may in future act as a cushion against future periods of lower than expected investment returns.

- **Inflation (Consumer Prices Index - CPI)**
  The starting point used for future inflation is the expected future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20-year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20-year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

  Scheme pension increases are linked to changes in the level of the Consumer Price Index (CPI) rather than RPI. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods, and as such a deduction is made to the RPI assumption due to the different ways that the indices are calculated which the Fund actuary has estimated to be 1.0% pa. This results in a CPI inflation assumption of 2.6% pa.

- **Salary Increases**
  The assumption for long-term real salary increases (salary increases in excess of price inflation) makes an allowance of 1.0% pa over the CPI inflation assumption described above. This is assumed to capture both the impact of general and promotional increases and will be kept under review or each valuation based on Fund-wide experience.

- **Pension Increases**
  Increases to pensions are assumed to be in line with the CPI inflation assumption described above.

Demographic Assumptions

Mortality/Life Expectancy
The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are adjusted to reflect the Fund specific experience analysis undertaken to inform current life expectancy. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% pa.

Commutation
It has been assumed that, on average, members will take 50% of the additional tax-free cash available to them, as well as their accrued lump-sum entitlement. The option which members have to commute part of their pension at retirement in return for a lump-sum is a rate of £12 cash for each £1 pa of pension given up.

Other Demographics
Following an analysis of Fund experience carried out by the Fund actuary and national LGPS carried out by GAD, the allowances for withdrawals and early retirements have been updated to the latest tables published by GAD. The proportions married/civil partnership assumption has remained the same since the previous valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next three years.

Expenses
Expenses are met out the Fund, in accordance with the regulations. For the 2019 valuation, administration expenses and investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

A summary of the headline financial and demographic assumptions adopted at 2019 and in 2016 is included below. Further details may be found in the Fund Actuary's Valuation Report published on the Fund's website.

Comparison of Key Financial Assumptions – 2019 and 2016 Actuarial Valuations

Assumption	2019	2016
Discount rate (for non-orphan liabilities)	4.6% per annum	4.7% per annum
Discount rate (for orphan liabilities)	2.6% per annum	3.3% per annum
Volatility reserve	5.0%/10.0% loading on past service liability for 'Category 2' or 'Category 3' employers	5.0%/10.0% loading on past service liability for 'Category 2' or 'Category 3' employers
Inflation/pension increases (CPI)	2.6% pa	2.4% pa
Salary increases - Short term - Long term - Salary increments	 n/a 3.6% pa (CPI plus 1.0% pa) n/a	 1.0% pa for three years 3.9% pa (CPI plus 1.5% pa) Age-related allowance
Past service asset reserve (potential McCloud remedy)	1.5% of assets	n/a

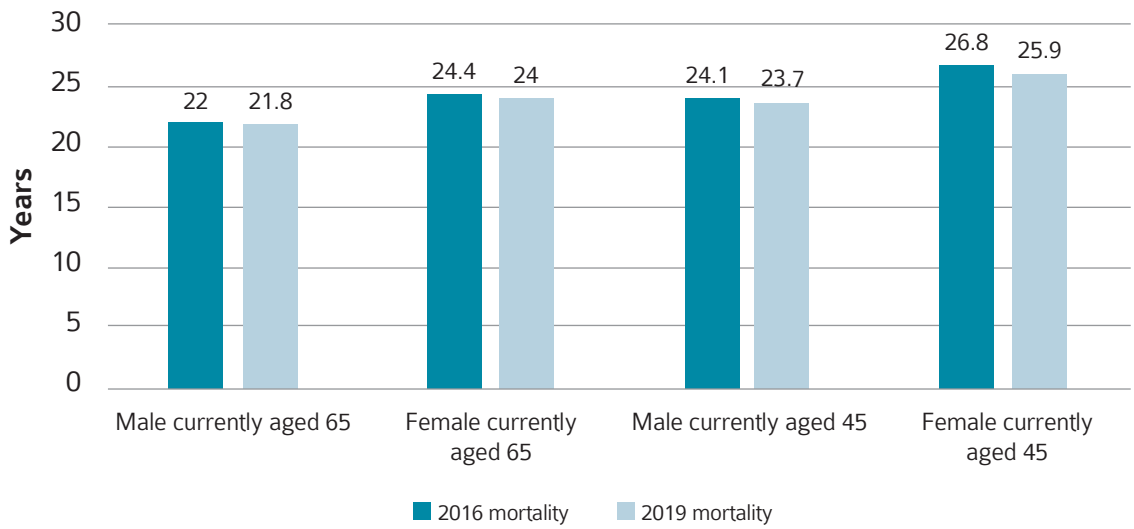
Mortality Assumptions	2019	2016
Pre-retirement mortality - base table	GAD 2016 tables with a rating of 115% for males and 125% for females.	GAD 2013 tables with a rating of 120% for males and 135% for females.
Post-retirement mortality - base table	CMI self-administered pension schemes (SAPS) tables with scheme-specific adjustments as appropriate following analysis by Barnett Waddingham's longevity table.	

Type	Base table	Adjustments (M/F)	Type	Base table	Adjustments (M/F)
Normal health	S3PA Heavy	85%/95%	Normal health	S2PA	110%/105%
Ill health	S3PA Heavy	85%/95%	Ill health	S2PA	110%/105%
Dependants	S3DMA/ S3DFA	110%/125%	Dependants	S2PMA/ S2DFA	140%/110%

Allowances for improvements in life expectancy	2018 CMI model with a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.	2015 CMI model with a long-term rate of improvement of 1.5% p.a.

The mortality assumptions above, and in particular the allowances for improvements in life expectancy, can be further illustrated by the chart below which is based upon a refresh of the Fund's own mortality experience together with observed changes to improvement rates over the last few years.

Life Expectancy



Other Demographic Assumptions

Partner age difference	Males are three years older than females
Proportion married	75% of males and 70% of females have an eligible dependant at retirement or early death
Allowance for withdrawals	GAD 2016 table
Allowance for cash commutation	Members will take an additional 50% of the remaining maximum tax-free cash available after members have taken the standard 3/80ths cash sum for pre-April 2008 service
Allowance for early retirements (non-ill-health)	Each member retires at their weighted average 'tranche retirement age', i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits
Allowance for 50:50 membership	We have assumed that existing members will continue to participate in their current section

Management of Funding Deficits and Surpluses

i) Employer contributions will be expressed and certified as two separate elements:

- the primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the secondary rate: a schedule of annual lump-sum amounts, payable over the three years to 2022/23 increasing annually in line with the valuation funding assumption for long-term pay growth (unless otherwise noted), in respect of deficit recovery or surplus release.

Both elements are subject to review from April 2023 based on the results of the 2022 actuarial valuation.

ii) In general, a maximum deficit recovery period of 17 years will apply, reduced from 22 years in 2013 and 20 years in 2016. Employers can elect a shorter period if they prefer and all contributions paid will be allocated to their individual asset share on future funding review. A shorter period may be applied in respect of particular employers where the administering authority considers this to be warranted (see Employer Categorisation below).

iii) Where significant increases in employer contributions were required from April 2020, and an employer provided evidence to the Fund that these were not affordable, the increase from the contributions payable in the year 2019/20 may be implemented in steps, at the discretion of the administering authority and as agreed with individual employers prior to April 2020, noting that rates will need to be increased to cover the amount due to the Fund to cover the cost of benefits accrual over the inter-valuation period to 2022/23

iv) In the event of the funding level showing a surplus, this should be spread over a period with due consideration of both prudence and the desirability of maintaining as nearly constant employer contribution rates as possible.

Organisations with sufficient covenant strength and suitable government guarantee may, as part of the 2019 actuarial valuation have surplus released over 30 years.

v) Organisations without sufficient covenant strength i.e. category 3 employers or without a local or central government guarantee will not see a reduction in contributions unless a surplus exists on a minimum risk (cessation) basis.

Employer Categorisation

The Fund employer covenant monitoring framework (established and maintained since 2010), takes into account a number of financial, funding and structural factors needed to rate employer covenant and allocate each individual employer to a risk banding (RAG rated). More information can be found in the Fund's 'Employer Risk Management Framework' located on the Fund website.

For the purpose of the triennial actuarial valuation, the Fund covenant risk ratings are used, together with employer characteristics (type of body, membership profile, level of government backing or other security) to allocate employers within the Fund into three categories to assist in determining an appropriate funding strategy.

Employers in different categories will have differential contribution plans determined by their funding target and pace of recovery of any deficit. Typically, those employers with weaker covenant would have a faster pace of recovery to mitigate overall funding risk and the impact of default on other employers.

Outlined below are the categories and what these mean in terms of deficit recovery period and funding strategy, in general:

Allocated Category[1]	Fund Covenant Risk Rating	General Features
Category 1	Green	Government-backed/guarantee for Government-backed organisation and over 100% funded
Category 2	Green/Amber	Guarantee/Strong balance sheet relative to pension liability
Category 3	Red/Critical (Black)	Exiting/Weak balance sheet relative to pension liability

- **Category 1**
  - Maximum recovery period of 17 years
- **Category 2**
  - Maximum recovery period of 12 years
  - Volatility reserve of 5% loading on past service liabilities
- **Category 3**
  - Maximum recovery period of 7 years
  - Volatility reserve of 10% loading on past service liabilities

[1]Note that within the preliminary results issued to employers the category's were labelled 'low', 'medium' and 'high', these correspond to category 1, 2 and 3 respectively in the table above.

Transferee Admission Bodies
For transferee admission bodies where admission to the LGPS is via a contract or other arrangement, the maximum recovery period will be aligned to the contract length, capped at the maximum recovery period for category of employer or the maximum recovery period of 17 years (whichever is lower), or as otherwise agreed with the ceding local authority.

For transferee admission bodies where closed to new entrants, the maximum recovery period will be aligned to the future working lifetime of its membership, if less than the contract length, capped at the maximum recovery period for category of employer or the maximum recovery period of 17 years (whichever is lower), or as otherwise agreed with the ceding local authority.

Community Admission Bodies
For community admission bodies, where closed to new entrants (or deemed to be so based on membership activity over previous six years), the maximum recovery period will be aligned to the future working lifetime of its membership, capped at the maximum recovery period for category of employer or the maximum recovery period of 17 years (whichever is lower), or such other period agreed by the employer and approved by the administering authority.

Academies
Academies will be treated in accordance with the factors and legislation that lead to their creation. In July 2013, the Department for Education (DfE) provided a guarantee that in the event of the closure of an academy trust, any outstanding liabilities, where not met from the trust's assets on closure, would be met by the DfE in full. However, the DfE has the right to withdraw the guarantee at any time and. grounds for withdrawing the guarantee include if the contingent liability levels set by the DfE are exceeded or if projected costs are no longer affordable from within the DfE's existing budget or are not approved by Treasury. The Treasury also reserves the right to re-assess the approval of the guarantee at a later date due to spending considerations or policy developments.

Therefore, to reflect the DfE guarantee, to include the potential for it to be withdrawn or amended, all academies will be considered to have the same covenant strength and placed in the employer category 2. However, so as to distinguish the unique nature of academies in terms of the Fund's employer base and reflecting the additional level of security the guarantee provides when compared to bodies with no guarantee, the Fund will adopt a 17-year recovery for all academies. This treatment is consistent with the recovery period applied to the local authorities from which the academies convert.

Further Education Colleges

- In 2019 a college insolvency regime came into effect for further education colleges (2017 Technical and Further Education Act). This regime means:
  - normal commercial insolvency law will apply to colleges. Where a college is in severe financial distress and there is no other solution, new statutory insolvency procedures can apply;
  - the college itself or its creditors can ask the court to apply a normal commercial insolvency processes. These processes include a company voluntary arrangement, administration, creditor's voluntary winding up, court-directed winding up or receivership;
  - in the case of an insolvency, the Department for Education ('DfE') can appoint an education administrator who will have wider duties. These duties will include the avoidance and minimisation of disruption to the studies or existing students as well as to secure the best outcome for learners; and

- statutory insolvency is considered a backstop. The DfE has indicated that it will use a non-statutory route in the first instance, including the commissioning of an Independent Business Review.

The Fund continues to monitor developments in this area as colleges enter into administration under this new regime and in particular the degree of risk for the Fund and its participating employers.

APPENDIX 2: ADMISSION BODY SEPARATE FUND – WEST MIDLANDS TRAVEL LIMITED (WMTL)

a) Introduction

- As noted in section 1.8, following a process of public consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), Regulations were laid before parliament providing for the merger of the former West Midlands Integrated Transport Authority (WMITA) Fund into that of the main West Midlands Pension Fund. Those regulations came into force on 8 November 2019 and were backdated to 1 April 2020 confirming the merger.
- As a separate admission body fund, WMTL complies with all areas of this Funding Strategy Statement, save for the matters covered within this appendix.

b) Assessment of Contributions

- As part of each valuation, separate employer contribution rates are assessed by the actuary for WMTL These rates are assessed taking into account the experience and circumstances of WMTL, following a principle of no cross-subsidy with any other Fund employer.
- In line with the status of being a separate admission body fund, WMTL has its own individual investment strategy and as such investment performance is directly attributable to the assets of the employer.

c) Links to Investment Policy Set Out in the Investment Strategy Statement (ISS)

- WMTL has its own Investment Strategy Statement (ISS).
- The Fund uses an asset liability study and stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in WMTL's ISS.
- WMTL 's investment strategy has been considered and reviewed in conjunction with the 2019 valuation and the FSS. In particular, the future return expectations of the main asset classes in which the Fund invests have been considered in determining the prudent allowance for future investment returns and extent of reliance on these by WMTL.

d) Key Assumptions

Discount rate (non buy-in pensioners)	3.2% per annum
Allowance for potential McCloud remedy (incorporated within discount rate above)	0.05% per annum
Discount rate (buy-in pensioners)	1.1% per annum
Discount rate (buy-in asset valuation)	1.1% per annum
Salary increases	2.7% per annum
Inflation/pension increases (CPI)	2.7% per annum (16-year duration)

e) Management of Funding Deficit

i) Employer contributions will be expressed and certified as two separate elements:

- the primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits.
- the secondary rate: a schedule of annual lump sum amounts, payable over the three years to 2022/23 increasing annually in line with the valuation funding assumption for long-term pay growth in respect of deficit recovery.

Both elements are subject to review from April 2023 based on the results of the 2022 actuarial valuation.

ii) A deficit recovery period was set for WMTL commensurate with the risk profile and current funding position of the employer.

f) Employer Covenant

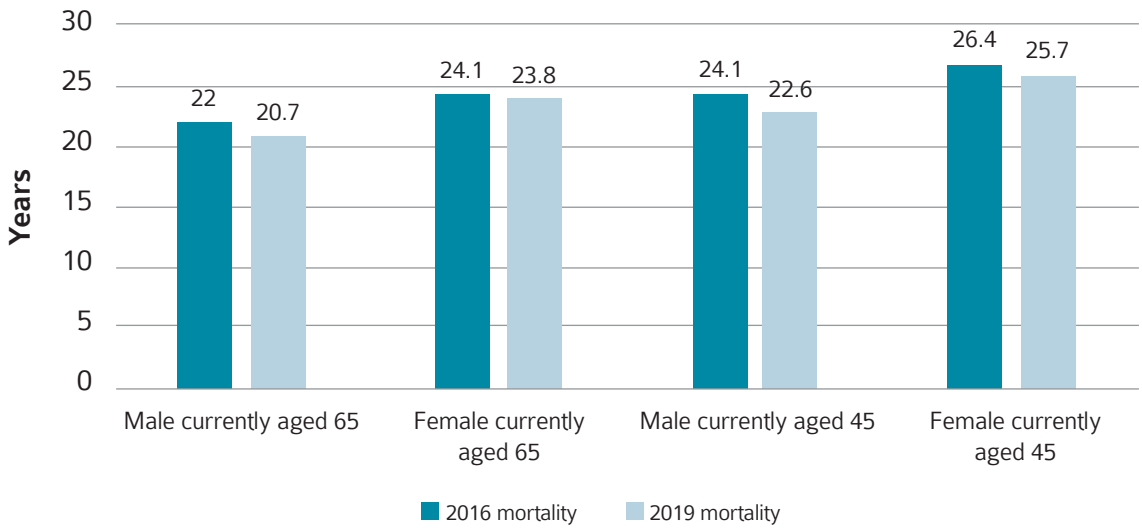
The Fund undertook a detailed assessment of WMTL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood and scale of employer default was used in the context of the funding strategy review.

Mortality Assumptions

Post-retirement mortality - base table	S3PA Heavy tables with a multiplier of 97% for all pensioner types
Allowances for improvements in life expectancy	2018 CMI model with a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.

The mortality assumptions above, and in particular the allowances for improvements in life expectancy, can be further illustrated by the chart below which is based upon a refresh of the Fund's own mortality experience together with observed changes to improvement rates over the last few years.

Life Expectancy



Other Demographic Assumptions

Partner age difference	Males are three years older than females
Proportion married	85% of members have an eligible dependant at retirement or early death
Promotional salary scale	Included implicitly within the financial salary increase assumption
Allowance for withdrawals	GAD 2016 table
Allowance for cash commutation	Members will take an additional 50% of the remaining maximum tax-free cash available after members have taken the standard 3/80ths cash sum for pre-April 2008 service
Allowance for early retirements (non-ill-health)	Each member retires at their weighted average 'tranche retirement age', plus three years for active members of WMTL and plus two years for deferred members of WMTL. The future service rate has been calculated using the retirement assumption above plus one year rather than three years for active members
Allowance for 50:50 membership	We have assumed that existing members will continue to participate in their current section

McCloud/Sargeant Ruling

At the time of drafting this FSS, it is still unclear how the McCloud/Sargeant judgements will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance included in the discount rate assumption.
As the remedy is still to be agreed the cost cannot be calculated with any certainty; however, the Fund actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.05%.

APPENDIX 3: ADMISSION BODY SEPARATE FUND – PRESTON BUS LIMITED (PBL)

a) Introduction

- As noted in section 1.8, following a process of public consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), Regulations were laid before parliament providing for the merger of the former West Midlands Integrated Transport Authority (WMITA) Fund into that of the main West Midlands Pension Fund. Those regulations came into force on 8 November 2019 and were backdated to 1 April 2020 confirming the merger.
- As a separate admission body fund, PBL complies with all areas of this Funding Strategy Statement, save for the matters covered within this appendix.

b) Assessment of Contributions

- As part of each valuation, separate employer contribution rates are assessed by the actuary for PBL. These rates are assessed taking into account the experience and circumstances of PBL, following a principle of no cross-subsidy with any other Fund employer.
- In line with the status of being a separate admission body fund, PBL has its own individual investment strategy and as such investment performance is directly attributable to the assets of the employer.

c) Links to Investment Policy Set Out in the Investment Strategy Statement (ISS)

- PBL has its own Investment Strategy Statement (ISS).
- The Fund uses an asset liability study and stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in PBL's ISS.
- PBL's investment strategy has been considered and reviewed in conjunction with the 2019 valuation and the FSS. In particular, the future return expectations of the main asset classes in which the Fund invests have been considered in determining the prudent allowance for future investment returns and extent of reliance on these by PBL

d) Key Assumptions

Discount rate	2.1% per annum
Inflation/pension increases (CPI)	2.7% per annum (16-year duration)

e) Employer Covenant

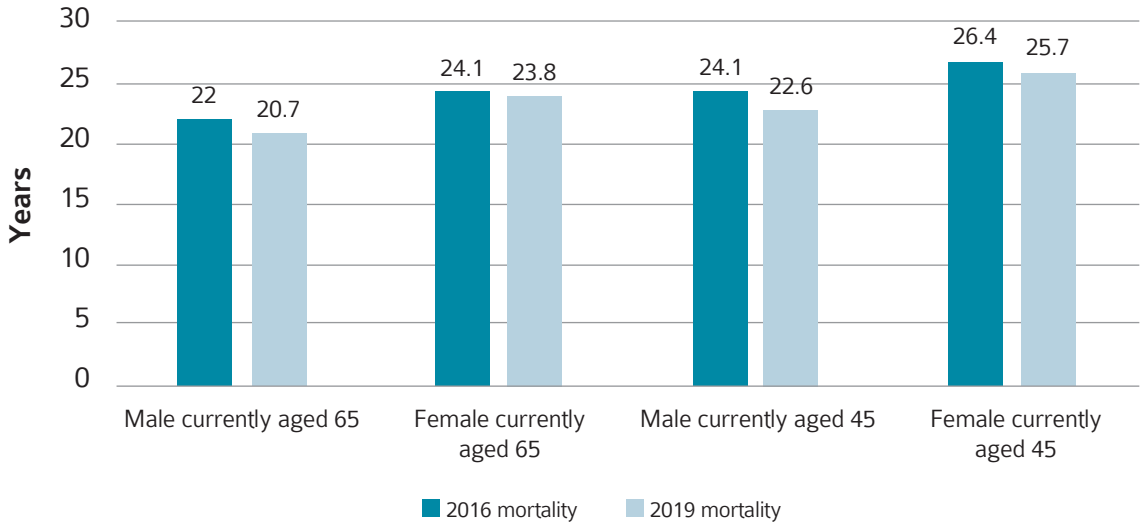
The Fund undertook a detailed assessment of PBL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood x scale of employer default was used in the context of the funding strategy review.

Mortality Assumptions

Post-retirement mortality - base table	S3PA Heavy tables with a multiplier of 97% for all pensioner types
Allowances for improvements in life expectancy	2018 CMI model with a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.

The mortality assumptions above, and in particular the allowances for improvements in life expectancy, can be further illustrated by the chart below which is based upon a refresh of the Fund's own mortality experience together with observed changes to improvement rates over the last few years.

Life Expectancy



Other Demographic Assumptions

Partner age difference	Males are three years older than females
Proportion married	85% of members have an eligible dependant at retirement or early death
Allowance for cash commutation	Members will take an additional 50% of the remaining maximum tax-free cash available after members have taken the standard 3/80ths cash sum for pre-April 2008 service
Allowance for early retirements (non-ill-health)	Each member retires at their weighted average 'tranche retirement age', i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits

McCloud/Sargeant Ruling

At the time of drafting this FSS, it is still unclear how the McCloud/Sargeant judgements will affect current and future LGPS benefits. However, given that the last active member of Preston Bus left service in 2006 (many years before the 2015 public service pension reforms), the Fund Actuary expects the impact on the Preston Bus liabilities to be negligible. Hence no allowance was made within the 2019 valuation of the Preston Bus liabilities for additional costs arising from the impact of these judgements.

GLOSSARY

50/50 Scheme
In the LGPS, active members are given the option of earning half of the standard LGPS benefits and paying half the standard member contribution rates.

Actuarial Valuation
An assessment by an actuary into the ability of a pension fund to meet its liabilities. At the actuarial valuation,the Fund's actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits.

Administering Authority
A body listed in Part 1 of Schedule 3 of the LGPS Regulations, who maintains a fund within the LGPS. Administering Authorities are typically councils based in England and Wales. The Fund's administering authority is the City of Wolverhampton Council.

Admission Body
An admission body is an employer admitted to the LGPS by way of an admission agreement. Admission bodies arise from contracts or outsourcing of services from local government.

Assets
Based on the assessments undertaken by the Fund actuary at each actuarial valuation, a level of contributions (primary and secondary) will be set for each participating employer within the Fund, payable in accordance with the Rates and Adjustment Certificate. Member contributions are set out in statute and collected and paid to the Fund by participating employers. The contributions received by the Fund are invested in accordance with the Fund's investment strategy and strategic asset allocation. Examples of invested assets include equities, bonds, cash and alternatives.

Asset Allocation
The breakdown of the Fund's assets in different asset classes.

Career Average Revalued Earnings ('CARE') Scheme
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Consumer Prices Index ('CPI')
CPI is an abbreviation standing for 'Consumer Prices Index'. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit
An employer has a deficit when its actuary calculates that it does not currently have enough assets to pay all future commitments. Deficits are typically corrected over periods of time by the payment of additional contributions by employers.

Discount Rate
The rate of interest used to estimate the amount of money needed to be held now to meet a benefit payment occurring in the future.

Employer Covenant
The degree which an employer participating in the LGPS is able to meet the funding requirements of the scheme, both now and in the future.

Employer's Future Service Contribution Rate ('Primary Rate')
The contribution rate payable by an employer, expressed as a% of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses and investment expenses.

Funding Level
The ratio of a fund's assets to the estimated value of its past service liabilities. This is expressed as a percentage. If a fund has a funding level of 100% then the value of its assets are equal to those of its liabilities.

Funding Strategy Statement (FSS)
This is a key governance document that outlines how the administering authority will determine employers' contributions to the Fund and manage its funding risks.

Funding Target
An assessment of the assets required to be held now in order to meet the benefits to be paid in the future. The desired funding target is to achieve a funding level of a 100% i.e. assets equal to the past service liabilities assessed using appropriate actuarial assumptions.

Government Actuary's Department ('GAD')
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a nonministerial department of HM Treasury.

Investment Strategy
The long-term distribution of assets among various asset classes; it takes into account the Fund's objectives and attitude to risk.

Liabilities
The estimated value, using actuarial methods and assumptions, placed on the obligations of a pension scheme. These obligations include the present value of future pension benefits and contingent benefits and may include the expected value of future expenses.

Local Government Pension Scheme ('LGPS')
An occupational pension scheme for Local Government workers and other related workers made up of 88 individual funds located across England and Wales. West Midlands Pension Fund is one of the 88 individual funds.

Prudent Assumption
An assumption where the outcome has a greater than 50% chance of being achieved. Legislation requires the assumptions (when considered collectively) adopted for an actuarial valuation to be prudent.

Rates and Adjustment Certificate
In accordance with the LGPS regulations, the administering authority must obtain this document from an actuary which sets out the contributions payable by each employer.

Real Return or Real Discount Rate
A rate of return or discount rate net of inflation.

Scheme Employer
A Scheme Employer is an employer that is legally obliged to take part in the LGPS by virtue of the LGPS Regulations. This includes councils of all types, academy schools and certain other public sector bodies.

Section 13 Valuation
Section 13 of the Public Service Pensions Act 2013 requires that all public service pension schemes, like the LGPS, undertake an actuarial valuation that ensures their solvency and their long-term cost-efficiency.

ADDENDUM 1: NEW EMPLOYERS JOINING THE FUND

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies
New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Risk-Sharing
Although a full risk transfer (as set out below) was previously the most common approach, the default approach for new admission bodies from 1 April 2019 will be for all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund. Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

Funding at Start of Contract
Noting that the Fund's default approach is a risk-sharing basis outlines above the option remains for a new admission body upon joining the Fund, they too become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution Rate
The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period (based on the employer categorisation set out earlier in this document).

Depending on the details of the arrangement, for example based on the Fund's default position and if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. In general, the approach for these cases will be for the contribution rate to be in line with the letting authority; however, there may be cases which will be bespoke to the individual arrangement.

Security
To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

New Academies
When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a scheme employer in its own right.

Contribution rates for academies will be calculated to meet the broad intentions of ensuring they are in a similar financial position in respect of pension liabilities pre- and post-transfer to academy status at inception. The policy applied to academies will be reviewed from time to time and as and when any further guidance emerges.

Funding at Start
On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

New free schools will be allocated zero assets as they are not formed through conversion from a pre-existing school. Any liabilities that are transferred to the free school by individual members will have associated transfer of assets on an individual basis.

Contribution Rate
Where an academy joins an existing multi-academy trust in the Fund, they will pay the same primary rate as the other academies in the multi-academy trust and any additional secondary contributions will be certified for the multi-academy trust in respect of the academy.

Bulk Transfers
Bulk transfers of staff into or out of the Fund can take place from other LGPS funds or non-LGPS funds. In either case, the Fund actuary for both funds will be required to negotiate the terms for the bulk transfer – specifically terms by which the value of assets to be paid from the Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer, but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Directions Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in the original fund are transferred to the receiving fund.

ADDENDUM 2: POLICY ON TERMINATION FUNDING FOR EMPLOYERS

1 INTRODUCTION

1.1 This addendum covers the key elements of the Fund's 'Termination Policy' written within the context of the FSS. For further details, please refer to the Fund's Termination Policy as held on our website.

2 PRINCIPLES

2.1 **Termination of an Employer's Participation**

An employer's participation within the Fund ceases when they no longer have any active members within the Fund. This could happen for a number of reasons, typically:

- The last active member participating in the Fund leaves, retires or transfers to another employer and ceases to be a member of the Fund and the employer does not wish to admit any more employees to that admission agreement.
- For admission bodies, the contract to which the admission agreement relates, comes to an end or is terminated prematurely.
- The employer ceases to exist, for example it goes into liquidation or is taken over by/merged with another organisation.

When an employer's participation comes to an end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case, the employees will retain pension rights within the Fund, i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees, the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where this is a complete transfer of responsibility to another Fund with a different administering authority.

Where an admission agreement is open (or for scheme employers) and the last active member ceases membership of the scheme, the Fund will approach the relevant employer with regards to its intentions for bringing in new active members. Where an intention to allow new active members to join the scheme is identified, the Fund's policy is to allow the employer six months from the date the active member left to admit such members. During this six-month period, the Fund will require payment of a lump-sum amount broadly equivalent to the percentage of contributions calculated by the Fund actuary, based upon the pensionable payroll used in the previous actuarial valuation. It is advised this lump-sum is paid on a monthly basis, or where the period is known until the next active member joins the scheme, a prorated payment can be calculated.

In the event an employer with an open admission agreement, or a scheme employer exceeds the six-month period without any active members having joined the scheme under that agreement, the Fund will enforce termination of the employer's participation in the scheme.

2.2 Pre-Funding for Termination

An employing body may choose to pre-fund for termination, i.e. to amend their funding approach to a least-risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum-risk basis.

For any employing bodies funding on such a minimum-risk strategy, a notional investment strategy may be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund may be credited with an investment return in line with the minimum-risk funding assumptions adopted rather than the actual (largely equity related) investment return generated by the actual asset portfolio of the Fund. The Fund reserves the right to modify this approach in any case, whether it might materially affect the finances of the scheme, or depending on any case specific circumstances.

2.3 Exiting the Fund

When an employer's participation in the Fund terminates and the employer becomes an 'exiting employer', the LGPS Regulations require that a termination valuation is carried out. The purpose of this valuation is to determine the level of any surplus or deficit in an exiting employer's share of the Fund as at the exit date and whether the exiting employer is liable to pay an exit payment or is entitled to receive an exit credit in such circumstances.

A deficit upon termination of an employer's participation might arise in the following scenarios (please note that this list is not exhaustive):

a) Non-payment of contributions to the Fund by an employing body prior to closure.

b) Premature termination of an employing body's participation where market values are depressed relative to the liabilities in respect of the employing body.

c) The actual experience is less favourable than the assumptions used in setting contribution rates for that employer – for instance, higher than expected rates of early retirement on favourable terms or pay increases.

d) Additional liabilities created as a result of the employing body closing, in particular the possible payment of immediate retirement benefits to all those over age 55 at that time.

The method used to calculate the termination valuation will ultimately depend on the characteristics of the exiting employer and in particular whether there is another scheme employer within the Fund that is prepared to act as a guarantor or succession employer for any residual liabilities and also in the context of the materiality of any impact on other participating scheme employers' contributions.

Where liabilities are "orphaned" without sufficient assets to cover the liabilities all remaining scheme employers that have active members in the Fund will have to cover any deficit arising from these liabilities via their own employer contributions, as assessed at each actuarial valuation (as required under Regulation 62 of the LGPS Regulations) or sooner if the liability profile of the employer is materially changed.

2.4 **a) Policy for Employers With a Guarantor Participating in the Fund**

Where the exiting employer has either:

- a guarantee from a scheme employer participating in the Fund with tax-raising powers;
- a guarantee from a central government department;
- or a guarantee from a scheme employer participating in the Fund, which benefits from a central government guarantee

then the default policy of the Fund is for the exit funding position to be based on a least risk basis, with the discount rate based upon government gilt yields of appropriate duration to the liabilities. In this instance, the scheme employer providing the guarantee will subsume all assets and liabilities from the exiting employer. No exit credit will be paid to, or any exit debt required from, the exiting scheme employer, unless the exiting employer is in surplus on the least risk valuation basis. The assets and liabilities will be subsumed within those of the guarantor employer, with future contribution requirements reassessed at each actuarial valuation.

However, for Schedule 2, Part 3 employers, where the service or contract is due to be transferred to another scheme employer participating in the Fund, subject to agreement from the guarantor, the Fund will consider the transfer of active member liabilities to the new employer based on the funding level of the previous exiting employer, as assessed in line with the assumptions consistent with the most recent actuarial valuation basis (ie, partially-funded upon commencement). This is based on the premise that the new employer has a reasonable prospect of retaining contributing employees and/or there is likely to be a succession employer to inherit liabilities.

In this instance the exiting employer will not be required to pay any exit debt and the scheme employer providing the guarantee subsumes all deferred and pensioner liabilities in respect of the exiting employer. In line with the "pass-through" arrangements outlined below, the new employer will pay the same contribution rate (primary rate only) as the scheme employer providing the guarantee scheme employer until next review.

b) Policy for Employers Without a Guarantor Participating in the Fund

Where the exiting employer does not have a guarantee as outlined in (a.) above this means that there may not be any future scheme employer or guarantor to make good any shortfall between assets and liabilities. In order to protect other scheme employers from having to meet these liabilities in the future the Fund will need to ensure that there are enough assets in the Fund that are unlikely to fall in value and provide certainty to pay benefits. This is on the basis that, upon cessation, employers in this category are no longer subject to ongoing funding but have instead exited the Fund and do not have a scheme employer to subsume their assets and liabilities. Accordingly, the policy of the Fund is for assessment of the exit funding position to be based on a least risk basis, with the discount rate based upon government gilt yields of appropriate duration to the liabilities.

2.5 Pass-Through Arrangements

The Fund's policy from April 2019 is for the default arrangement to be for all new Schedule 2, Part 3 employers to pay the same primary contribution rate as the guarantor employer. The Fund will not obtain an actuarial assessment upon termination, instead the scheme employer providing the guarantee employer must accept full responsibility for the Schedule 2 Part 3 scheme employer's ("contractor's") assets and liabilities in the Fund, and will correspondingly be entitled to benefit from any surplus within the Fund relating to those liabilities. This arrangement is known as a pass-through arrangement.

The contribution rates for all employers will be reviewed at each subsequent actuarial valuation in line with Regulation 62 of the LGPS Regulations.

The Fund's policy is for these pass-through arrangements to be documented in the service contract between the guarantor employer and the Schedule 2, Part 3 scheme employer, but where not agreed, the default will be for these arrangements to be included in the Fund's tripartite admission agreement.

As an alternative to the pass-through arrangement, if the guarantor employer and contractor agree to a standard admission agreement and notify the Fund within one month of the contract commencement date, the Fund may, at its discretion, implement such an admission agreement without reference to pass-through.

The administering authority reserves the right to modify this approach on a case-by-case basis, at its sole discretion, if the circumstances warrant it based on the advice of the Fund actuary and taking into account the risk associated with an employer in the context of the Fund as a whole. For instance, in the highly unlikely event that parties insisted upon access to the Fund through a statutory route, but did not wish to participate on a pass-through arrangement then the Fund would need to consider funding the new employer on a least risk basis.

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TERMINATION POLICY
MARCH 2020

West Midlands Pension Fund

1 INTRODUCTION

1.1 This document details the West Midlands Pension Fund's (the Fund) policy on the methodology for assessment of ongoing contribution requirements and termination payments on the cessation of an employer's participation in the Fund. This document also covers the Fund's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS) as available on the Fund's website.

The preparation of the Termination Policy has been based on the latest CIPFA guidance in accordance with the regulations issued in September 2016 and also the LGPS (Amendment) Regulations 2020 coming into force on 20 March 2020.

The Termination Policy was last updated from 1 April 2019 following release of LGPS (Amendment) Regulations effective 14 May 2018 and is reviewed with each actuarial valuation. The latest version was adopted and approved following consultation on xx March 2020.

1.2 Admission bodies are required to have an 'admission agreement' with the Fund. In conjunction with the regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund. Wherever possible, the Fund will seek a guarantor body within the Fund for all admissions.

1.3 Scheme employers have a statutory right to participate in the LGPS and their employees, therefore, can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for their employees.

2 PRINCIPLES

2.1 **Termination of an Employer's Participation**

An employer's participation within the Fund ceases when they no longer have any active members within the Fund. This could happen for a number of reasons, typically:

- The last active member participating in the Fund leaves, retires or transfers to another employer and ceases to be a member of the Fund and the employer does not wish to admit any more employees to that admission agreement.
- For admission bodies, the contract to which the admission agreement relates, comes to an end or is terminated prematurely.
- The employer ceases to exist, for example it goes into liquidation or is taken over by/merged with another organisation.

When an employer's participation comes to an end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case, the employees will retain pension rights within the Fund, i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees, the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where this is a complete transfer of responsibility to another Fund with a different administering authority.

Where an admission agreement is open (or for scheme employers) and the last active member ceases membership of the scheme, the Fund will approach the relevant employer with regards to its intentions for bringing in new active members. Where an intention to allow new active members to join the scheme is identified, the Fund's policy is to allow the employer six months from the date the active member left to admit such members. During this six-month period, the Fund will require payment of a lump-sum amount broadly equivalent to the percentage of contributions calculated by the Fund actuary, based upon the pensionable payroll used in the previous actuarial valuation. It is advised this lump-sum is paid on a monthly basis, or where the period is known until the next active member joins the scheme, a prorated payment can be calculated.
In the event an employer with an open admission agreement, or a scheme employer exceeds the six-month period without any active members having joined the scheme under that agreement, the Fund will enforce termination of the employer's participation in the scheme.

2.2 **Open Admission Agreements**

An open agreement potentially allows any employee of the contractor involved in the provision of the outsourced services to become a member of the LGPS. For example, new recruits the contractor employs in the provision of the outsourced service may become members of the LGPS.

It is possible under certain circumstances that an employing body can apply to transfer all assets for current and former members' benefits to another LGPS fund in England and Wales. In these cases, no termination assessment is required as there will be no longer any orphan liabilities in the Fund. Therefore, a separate assessment of the assets to be transferred will be required.

2.3 **Pre-Funding for Termination**

An employing body may choose to pre-fund for termination, i.e. to amend their funding approach to a least-risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum-risk basis.

For any employing bodies funding on such a minimum-risk strategy, a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum-risk funding assumptions adopted rather than the actual (largely equity related) investment return generated by the actual asset portfolio of the Fund. The Fund reserves the right to modify this approach in any case, whether it might materially affect the finances of the scheme, or depending on any case specific circumstances.

2.4 **Administering Authority Options Relating to Admission Bodies**

As noted at paragraph 1.2, a guarantor within the Fund will be sought for all admissions.

Prior to admission to the Fund, an admission body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the administering authority. If the risk assessment and/or bond amount is not to the satisfaction of the administering authority (as required under the LGPS regulations),

it will consider and determine (in particular in cases where there is no guarantor within the Fund) whether:

In order to protect other Fund employers, when considering applications for admission body status where there is no guarantor within the Fund, the administering authority can determine that:

- the admission body must pre-fund for termination with contribution requirements assessed using the least-risk methodology and assumptions; or
- the admission body's application is refused; or
- other requirements as considered appropriate in the circumstances will apply.

Some aspects that the administering authority may consider when deciding whether to apply any of the options above, in the absence of a guarantor, are:

- uncertainty over the security of the organisation's funding sources, e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- if the admission body has an expected limited lifespan of participation in the Fund; and
- the average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS regulations.

3 MANAGEMENT OF TERMINATION OF ADMISSION AGREEMENTS

3.1 Notification of Termination

In many cases, termination of the employing body's participation is an event that can be foreseen, for example in the case of admission bodies, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the regulations, in the event of the administering authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the administering authority that it will cease to be a participating employer. In such cases, employing bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible, preferably at least six months in advance of the event.

Where termination is disclosed in advance, the Fund will operate procedures to reduce volatility risks to the debt amount in the run up to actual termination of the employer's participation. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the scheme, or depending on any case-specific circumstances.

3.2 Ongoing Review

The Fund operates a management framework aimed at reducing its exposure to risk through termination of employer participations in conjunction with monitoring of the strength of employer covenant. As part of this review, the Fund endeavours to anticipate when participation might cease and analyses member movements with a view to the last active member of an employing body ceasing membership of the Fund. In addition,

aligned to the evaluation of employer covenant strength, the Fund considers where there might be employers with funding difficulties in order to attempt to pre-empt circumstances culminating in termination of an employing body's participation.

Where the Fund's review highlights areas for concern, the policy is for a proactive approach whereby dialogue is opened with the employer and, if appropriate, a meeting is scheduled to discuss the issues facing both parties. The aim of such meetings is to widen employers' awareness of the implications upon termination of an admission agreement and where possible to attempt to take steps designed to alleviate funding issues.
It should be noted that the Fund adopts such an approach in the interest of both the Fund and outgoing bodies. It is, however, reliant upon the information available, particularly in assessing the strength of covenant. It is, therefore, vital that organisations contact the Fund at the earliest instance once they become aware that termination of an employer's participation may be a possibility.

4 IMPLEMENTATION

4.1 **New Admissions**
The Fund will apply the above principles to the admission of new employing bodies into the Fund, and to the methodology for assessment of a termination payment on the cessation of such an employing body's participation in the Fund.

4.2 **Transferee Admission Bodies (TABs)**
Transferee admission bodies are a category of admission body that generally will have a guarantor in the Fund. This is due to the regulations requiring that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant scheme employer should be revised.

Any risk sharing arrangements agreed between the scheme employer and the TAB must be documented in the commercial agreement between the two parties and not the admission agreement. On termination of a TAB admission, any orphan liabilities in the Fund will be subsumed by the relevant scheme employer, acting as guarantor.

The admission body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the administering authority. This assessment would normally be based on advice in the form of a 'risk assessment report' provided by the actuary to the Fund. As the scheme employer is effectively the ultimate guarantor for these admissions to the Fund, it must also be satisfied (along with the administering authority) over the level (if any) of any bond requirement.

In the absence of any other specific agreement between the parties, deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS. An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS fund. In order to protect other employers within the Fund, the administering authority may in this case treat the admission body as if it has no guarantor.

4.3 **Community Admission Bodies (CABs)**

Historically, there was no requirement to carry out an assessment of the level of risk on termination of the admission agreement for a CAB until changes were made to the regulations via the Miscellaneous Regulations in 2012. For bodies admitted under previous legislation, despite no requirement to do so, the administering authority may have, nevertheless, decide to carry out such a risk assessment, where appropriate. As noted above, all admission bodies are now required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the administering authority.

The Fund's policy is to consider applications on a case-by-case basis, in line with the principles set out above. In general, if any risk assessment or determination of a bond amount is not to the satisfaction of the administering authority, or if a guarantor body (of sufficient standing acceptable to the Fund) is not forthcoming, the admission will either not be approved or the admission body will be required to pre-fund for termination with contribution requirements assessed using a least risk methodology and assumptions, or other requirements may be applied. Where bond agreements are to the satisfaction of the administering authority, the level of the bond amount will be subject to review on a regular basis.

Deficit recovery periods will be determined consistent with the policy set out in the FSS. The administering authority may, however, determine based on risk an employer-specific deficit recovery period will apply.

4.4 **Exiting the Fund**

When an employer's participation in the Fund terminates and the employer becomes an 'exiting employer', the LGPS Regulations require that a termination valuation is carried out. The purpose of this valuation is to determine the level of any surplus or deficit in an exiting employer's share of the Fund as at the exit date and whether the exiting employer is liable to pay an exit payment or is entitled to receive an exit credit in such circumstances. The administering authority may determine, at their absolute discretion, the amount of any exit credit payment due, having regard to any relevant considerations.

A deficit upon termination of an employer's participation might arise in the following scenarios (please note that this list is not exhaustive):

a) Non-payment of contributions to the Fund by an employing body prior to closure.

b) Premature termination of an employing body's participation where market values are depressed relative to the liabilities in respect of the employing body.

c) The actual experience is less favourable than the assumptions used in setting contribution rates for that employer – for instance, higher than expected rates of early retirement on favourable terms or pay increases.

d) Additional liabilities created as a result of the employing body closing, in particular the possible payment of immediate retirement benefits to all those over age 55 at that time.

The method used to calculate the termination valuation will ultimately depend on the characteristics of the exiting employer and in particular whether there is another scheme employer within the Fund that is prepared to act as a guarantor or succession employer

for any residual liabilities and also in the context of the materiality of any impact on other participating scheme employers' contributions.

Where liabilities are "orphaned" without sufficient assets to cover the liabilities all remaining scheme employers that have active members in the Fund will have to cover any deficit arising from these liabilities via their own employer contributions, as assessed at each actuarial valuation (as required under Regulation 62 of the LGPS Regulations) or sooner if the liability profile of the employer is materially changed.

4.5 **a) Policy for Employers With a Guarantor Participating in the Fund**

Where the exiting employer has either:

- a guarantee from a scheme employer participating in the Fund with tax-raising powers;
- a guarantee from a central government department;
- or a guarantee from a scheme employer participating in the Fund, which benefits from a central government guarantee

then the default policy of the Fund is for the exit funding position to be based on a least risk basis, with the discount rate based upon government gilt yields of appropriate duration to the liabilities. In this instance, the scheme employer providing the guarantee will subsume all assets and liabilities from the exiting employer. No exit credit will be paid to, or any exit debt required from, the exiting scheme employer, unless the exiting employer is in surplus on the least risk valuation basis. The assets and liabilities will be subsumed within those of the guarantor employer, with future contribution requirements reassessed at each actuarial valuation.

However, for Schedule 2, Part 3 employers, where the service or contract is due to be transferred to another scheme employer participating in the Fund, subject to agreement from the guarantor, the Fund will consider the transfer of active member liabilities to the new employer based on the funding level of the previous exiting employer, as assessed in line with the assumptions consistent with the most recent actuarial valuation basis (ie, partially-funded upon commencement). This is based on the premise that the new employer has a reasonable prospect of retaining contributing employees and/or there is likely to be a succession employer to inherit liabilities.
In this instance the exiting employer will not be required to pay any exit debt and the scheme employer providing the guarantee subsumes all deferred and pensioner liabilities in respect of the exiting employer. In line with the "pass-through" arrangements outlined below, the new employer will pay the same contribution rate (primary rate only) as the scheme employer providing the guarantee scheme employer until next review.

b) Policy for Employers Without a Guarantor Participating in the Fund

Where the exiting employer does not have a guarantee as outlined in (a.) above this means that there may not be any future scheme employer or guarantor to make good any shortfall between assets and liabilities. In order to protect other scheme

employers from having to meet these liabilities in the future the Fund will need to ensure that there are enough assets in the Fund that are unlikely to fall in value and provide certainty to pay benefits. This is on the basis that, upon cessation, employers in this category are no longer subject to ongoing funding but have instead exited the Fund and do not have a scheme employer to subsume their assets and liabilities. Accordingly, the policy of the Fund is for assessment of the exit funding position to be based on a least risk basis, with the discount rate based upon government gilt yields of appropriate duration to the liabilities.

4.6 **Pass-Through (Risk-Sharing) Arrangements**

The Fund's policy since April 2019 is for the default arrangement to be for all new Schedule 2, Part 3 employers to pay the same primary contribution rate as the guarantor employer. The Fund will not obtain an actuarial assessment upon termination, instead the scheme employer providing the guarantee employer must accept full responsibility for the Schedule 2 Part 3 scheme employer's ("contractor's") assets and liabilities in the Fund, and will correspondingly be entitled to benefit from any surplus within the Fund relating to those liabilities. This arrangement is known as a pass-through arrangement.

The contribution rates for all employers will be reviewed at each subsequent actuarial valuation in line with Regulation 62 of the LGPS Regulations.

The Fund's policy is for these pass-through arrangements to be documented in the service contract between the guarantor employer and the Schedule 2, Part 3 scheme employer, but where not agreed, the default will be for these arrangements to be included in the Fund's tripartite admission agreement.

As an alternative to the pass-through arrangement, if the guarantor employer and contractor agree to a standard admission agreement and notify the Fund within one month of the contract commencement date, the Fund may, at its discretion, implement such an admission agreement without reference to pass-through.

The administering authority reserves the right to modify this approach on a case-by-case basis, at its sole discretion, if the circumstances warrant it based on the advice of the Fund actuary and taking into account the risk associated with an employer in the context of the Fund as a whole. For instance, in the highly unlikely event that parties insisted upon access to the Fund through a statutory route, but did not wish to participate on a pass-through arrangement then the Fund would need to consider funding the new employer on a least risk basis.

4.7 **Recovery of Deficits**

In the event that an employer's participation in the Fund terminates, a number of varied scenarios will arise for the recovery of deficits, most commonly:

- Employees transfer to a new employer body within the Fund and the successor body takes responsibility for any associated pension liabilities (including those for former employees) and any funding deficits that exist on cessation of the original employing body.
- Where an employer ceases to participate in the Fund and there is no successor body involved, the recovery of deficit initially focuses on the employing body itself and the Fund requires that body to make full and final payment of the least risk deficit.

- In the final event of failure to recover any deficit payment from the employing body, the Fund would place responsibility for the payment of deficit upon any guarantor, which might already exist under the terms of the employer's participation or could be sought to cover the deficit, usually as the original guarantor employer.
- In the event of the employing body going into liquidation, the liquidators would be contacted with a view to extracting as much of the termination deficit from the proceeds of the business as possible. The Fund would act as a creditor and reserves the right to appoint an agent to reclaim monies owed by whatever means necessary.

4.8 **Multi-Academy Trusts**

Where an employer within a multi-academy trust (MAT) fails, unless that academy is an employer in its own right there is no power within the regulations for the administering authority to commission an exit valuation under Regulation 64, unless it considers that the MAT itself may become an exiting employer and so a valuation under Regulation 64(4) is appropriate. In that case, where an employer within the MAT has failed, irrespective of whether or not the Department for Education guarantee applies, the liabilities of the exiting academy will fall to be funded by the remaining employers within the MAT rather than becoming orphaned liabilities. The administering authority may direct the Fund actuary to take this failure into account and adjust the contributions payable by the remaining employers within the MAT at the next triennial actuarial valuation.
The administering authority may also direct the Fund actuary to carry out a valuation of the liabilities of the exiting academy in the Fund at the date of exit in order to assess the effect of its failure on the remaining employers within the MAT, and ensure the remaining MAT employers (and any new employers joining the MAT) are aware to the extent of these liabilities.

Where employers within a MAT are individual scheme employers for the purpose of the regulations, and an academy within the MAT leaves or fails, an exit valuation will be carried out as at the date of exit. Where there is no successor body and the Department for Education guarantee does not make good any shortfall on exit, the administering authority would seek to recover any unpaid deficit from the remaining employers within the MAT where those employers participate in the Fund. Rather than requiring a lump sum payment, the administering authority may instead act on the assumption that the remaining MAT employers will subsume the unpaid deficit which would then fall to be recovered from ongoing contributions. In that case the administering authority will instruct the Fund actuary to allocate the assets and liabilities of the outgoing academy across the remaining employers in the MAT.

Where academies move between multi-academy trusts, for example where a MAT winds up and its academies transfer into different MATs (whether existing MATs within the Fund or newly-established MATs), the administering authority may direct the Fund actuary to carry out a valuation of the liabilities of any academy moving between MATs and of all academies within the exiting MAT. Where the exiting MAT is the scheme employer, and hence an individual funding position has not been maintained for the constituent academies, the assets notionally allocated to each of its academies will be derived by assuming each has the same funding level as the MAT as a whole. The calculation of the assets and liabilities in these circumstances is to ensure that both the former and new MAT are aware of the value of the assets and liabilities transferring and to ensure that the residual position of the exiting MAT (if any of its liabilities are not transferring to a new

academy or MAT) is correctly assessed for the purpose of the Department for Education guarantee.

4.9 **Payment of Any Deficit**

If it is determined there is a deficit and the employer is required to make a payment to the Fund, the administering authority will confirm to the employer the amount payable.

Unless the likely cost of doing so negates the amount that can be recovered by the Fund, the administering authority will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit.
The administering authority will also pursue any indemnity provider or guarantor for payment where applicable.

The Fund's policy is for any deficit upon termination to be recovered through a single lump-sum payment to the Fund (unless agreed otherwise by the administering authority at their sole discretion). In circumstances of late payment, the Fund will request payment of the appropriate interest amount and expenses, in addition to the termination deficit identified, as calculated by the Fund actuary. The Fund may consider permitting an exiting body to spread payment over a short period, where it considers that this does not pose a material risk to the solvency of the Fund. In such instances, the Fund may request the organisation provides appropriate security to support consideration of a payment plan and, if this is not satisfactory, consideration will be given to an independent financial and governance review. Any payment plan implemented will need to be legally documented with any associated costs covered by the exiting employer.

4.10 **Payment of Any Surplus**

In the instance it is determined by the Fund actuary, based on the parameters set out in 4.5 and 4.6, that a surplus exists upon employer exit, in accordance with LGPS Regulation 64 , the Fund will pay this surplus, to the exiting employer. Any payment to or from the Fund may need to be adjusted for expenses incurred by the Fund. In addition, there will be no interest applied to exit credits unless agreed with the administering authority.

The Fund may determine, at their absolute discretion, the amount of any exit credit payment due, having regard to any relevant considerations. The payment of any exit credit due will be made within six months from the point at which the Fund received written confirmation of the employer's exit. Whilst the Fund will take into account representations made by the parties involved, it will not be obliged to enquire into precise risk-sharing mechanisms adopted.

The administering authority also reserves the right to modify this approach on a case-by-case basis at its sole discretion, if circumstance warrant it based on the advice of the Fund actuary.

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