

# Pensions Board

9 July 2020

**Time** 2.00 pm **Public Meeting?** No **Type of meeting** Pensions

**Venue** Online meeting

## Membership

### Employer Representatives

Jacqueline Carman  
Cllr Jasbir Jaspal  
Paul Johnson  
Ian Martin  
Joe McCormick (Chair)

### Member Representatives

Sharon Campion (Unison)  
Steve Carter (GMB)  
Michael Foxall (Unite)  
George Hickman (Unite)  
Cllr Hazel Malcolm  
Adrian Turner (Unison: Vice-Chair)

Quorum for this meeting is four (minimum of two member and two employer representatives and include either the Chair or the Vice Chair)

## Information

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

**Contact** Kirsty Tuffin  
**Tel/Email** kirsty.tuffin@wolverhampton.gov.uk 01902 552873  
**Address** Democratic Services, Civic Centre, 1st floor, St Peter's Square,  
Wolverhampton WV1 1RL

Copies of other agendas and reports are available from:

**Website** <https://wolverhamptonintranet.moderngov.co.uk>  
**Email** [democratic.services@wolverhampton.gov.uk](mailto:democratic.services@wolverhampton.gov.uk)  
**Tel** 01902 550320

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

# Agenda

## Part 1 – items open to the press and public

- | <i>Item No.</i> | <i>Title</i>   |
|-----------------|--|
| 1               | <b>Apologies for absence</b>   |
| 2               | <b>Declarations of interest</b>  |
| 3               | <b>Minutes of the Previous Meeting</b> (Pages 5 - 10)<br>[For approval]  |
| 4               | <b>Matters arising</b>   |
| 5               | <b>Annual Governance Report</b> (Pages 11 - 42)<br>[To approve the Annual Governance matters of Local Pensions Board in line with the good governance requirements of the Pensions Regulator and the Scheme Advisory Board (SAB)].                                 |
| 6               | <b>Internal Audit Annual Report 2019 - 2020 and Internal Audit Plan 2020 - 2021</b><br>(Pages 43 - 62)<br>[To receive the outcome of the work programme for internal audit for 2019 – 2020 and to outline the work programme for internal audit during 2020-2021]. |
| 7               | <b>Legal and Compliance update</b> (Pages 63 - 88)<br>[To receive an update on the work of the Fund to deliver a well governed scheme].  |
| 8               | <b>Business Performance and Service Plan Update</b> (Pages 89 - 98)<br>[To receive an overview of how the Fund delivered the priorities set out in the 2019 - 2024 Service Plan].  |
| 9               | <b>Annual Report and Accounts 2019 - 2020</b> (Pages 99 - 104)<br>[To receive an update on the preparation, approval and audit of the Statement of Accounts and the Annual Report for the year ending 31 March 2020].  |
| 10              | <b>Customer Engagement Update</b> (Pages 105 - 118)<br>[To receive a high-level update of the Fund's customer engagement activity.]  |
| 11              | <b>Pensions Administration Report to 31 March 2020</b> (Pages 119 - 148)<br>[To receive an update on the routine operational work undertaken by the pension's administration service areas during the period 1 October 2019 to 31 March 2020].                     |
| 12              | <b>Data Management</b> (Pages 149 - 166)<br>[To note the Fund's Data Management Strategy and to receive an update on the work of the Fund in delivering good data management in line with statutory requirements.]   |

- 13      **2019 Valuation** (Pages 167 - 214)  
[To receive confirmation of the finalised 2019 actuarial valuation and a summary of the national position and associated reviews].
- 14      **Investment Governance** (Pages 215 - 260)  
[To receive an update on investment related matters including review of the Fund's Investment Strategy, the ongoing development of LGPS Central Investment Pool and the Fund's responsible investment activities].
- 15      **Fund Response to Covid-19** (Pages 261 - 268)  
[To receive an overview of the Fund's response to the current global pandemic].

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## Attendance

### Members of the Pensions Board

#### Employer representatives

Paul Johnson  
Ian Martin  
Joe McCormick (Chair)

#### Member representatives

Michael Foxall  
Cllr Hazel Malcolm  
Stan Ruddock  
Adrian Turner (Vice-Chair)

#### 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
Lauren Pote	Governance Support Officer
Hayley Reid	Regulatory Governance Manager – West Midlands Pension Fund
Simon Taylor	Head of Pensions - West Midlands Pension Fund
Kirsty Tuffin	Democratic Services Officer

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## Part 1 – items open to the press and public

*Item No.*    *Title*

- 1 Apologies for absence**  
Apologies for absence were submitted on behalf of Sharon Champion.
- 2 Declarations of Interest**  
No declarations of interest were submitted.
- 3 Minutes of the Previous Meeting**  
That the minutes from the previous meeting held on 22 October 2019 be approved as a correct record.
- 4 Matters Arising**  
Rachel Brothwood, Director of Pensions, making reference to minute item 5, advised that due to the timings of publications and the end of the quarter, routine monitoring reports covered the quarter ending 30 September, with key developments over the most recent quarter noted in commentary to the report. This risk register had,

however, been updated to reflect monitoring and review over the period July to December, to bring this more up to date, as requested by the Board.

5 **Customer Engagement Update**

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

The Board were advised that during this period a number of engagements with customers had taken place which included:

- Presentations delivered to 325 attendees held at a variety of different locations including district Councils, universities, schools and other admitted bodies.
- 10 satellite support events for hard to reach members, who may not normally be able to access services.
- Further support through drop in sessions and roadshows, supporting 1,580 members on an individual basis.

In response to a question raised by an employer representative the Board were advised that feedback from the Fund's 2019 Annual General Meeting held on 3 December 2019 would be included in the customer engagement report presented to the Board in April, ahead of the Fund's Mid-Year Review.

Resolved:

1. That the engagement activity and informed service development report be noted.
2. That the specific engagement supporting consultation on the Funding Strategy Statement aligned to the 2019 actuarial valuation be noted.

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

Simon Taylor, Head of Pensions, presented the report on the work undertaken by the pension's administration service areas during the period 1 July – 30 September 2019 for both the Main Fund and the WMITA Pension Fund.

The Board were informed that following legislation effective 8 November 2019, merging the West Midlands Local Government Pension Schemes (the Main Fund and the WMITA Pension Fund) (LGPS) funds, reporting will be prepared at total Fund level going forward.

Resolved:

1. That the pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Pension Fund), in particular that performance targets were met across the key benefit operation processes during the reporting period be noted.
2. That the progress being made with the Fund's Digital Transformation Programme to support the Fund to transform its business areas through the use of information and technology to drive business efficiencies be noted.

7 **Data Management**

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

In response to a question raised by the Board relating ABS performance, Rachel Howe, Head of Governance confirmed that the Fund would continue to review reasons for non-production and had been working with employers to improve ABS delivery confirming all members had received communication from the Fund where it was unable to produce an annual benefit statement.

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.

## 8 **Business Performance Update**

Rachel Howe, Head of Governance and Corporate Services, presented the report, an update on the Fund's key performance indicators for the period up to 30 September 2019 and details of the initial considerations for development of the Fund's Service Plan 2020 - 2025.

Paul Johnson asked whether the Fund had the capacity to deliver against the priorities in the Service Plan considering the changes to the LGPS environment highlighted within the report. Rachel Brothwood, Director of Pensions, advised that the Service Plan had a 5-year time horizon and delivery would be dependent on ongoing recruitment and systems developments. Progress had been in building the resources and tools to support delivery, but some elements were taking longer than initially envisaged and could be impacted by changes to the Scheme which are outside of the Fund's control. Progress against the objectives set within the annual plan, would continue to be reviewed and monitored on a quarterly basis.

Resolved:

1. That the Key Performance Indicators for the period up to 30 September 2019 be noted.
2. That the Fund's initial considerations in the development of its Service Plan 2020 – 2025 be noted.

## 9 **Legal and Compliance Update**

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

The Head of Governance informed the Board that the method of presentation of the Fund's risk register was being reviewed and that the new reporting style would be presented the Pensions Board for comment and review at their next meeting.

Following questions, Jill Davys, Assistant Director – Investments and Finance, advised that investment performance was reviewed on a quarterly basis however the Board were reminded that the Fund's investments were long term and that a three to five year view had been more appropriate for assessing delivery relative to investment objectives and funding requirements.

Resolved:

1. That an 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 the LGPS and wider pensions industry be noted.
5. That the update on the West Midlands' Local Government Pension Scheme (LGPS) Pension Fund Merger be noted.

## 10 **Investment Governance**

Jill Davys, Assistant Director - Investments and Finance, presented the report, an update on investment related matters including the ongoing development of LGPS Central Investment Pool and the Fund's responsible investment activities.

The Board were advised that a review of the Fund's Investment Strategy to coincide with the triennial Actuarial Valuation would be included in the Investment Strategy report, due to be presented to the next Pensions Committee meeting in March. The updated Investment Strategy Statement would be brought to the next Pensions Board meeting.

Jill Davys, Assistant Director- Investment and Finance advised that the Fund now had £6.5 billion (around 40%) of assets under management now invested in sub-funds developed by the LGPS Central investment pool, with further product development plans under review. It was noted that the Fund's strategy review and analysis of costs, including cost of transition, would inform future requirements of the pool. Further guidance on pooling had still been expected for consultation by MHCLG, although the timing had been unclear.

The Board were advised that the Fund would be reviewing its responsible investment framework and inherent engagement themes would be reviewed and expanded to include a greater focus on social and human rights issues, following discussion with the Pensions Committee.

Resolved:

1. That the update on investment governance matters including responsible investment and investment pooling be noted.

## 11 **Nominations 2020**

Rachel Brothwood, Director of Pensions, presented the report on nominations to the pension board for 2020-2021. The report asked the Board to convene an Appointments Panel to receive nominations for the year 2020-2021 and to confirm the seats for nomination.

Rachel Brothwood, Director of Pensions confirmed that there were two vacancies on the Board, one in each of the categories of member and employer representatives.

In accordance with the appointments process the Board were requested to form an appointments panel consisting of the Chair, Vice Chair and one member and one employer representative to consider applications for the vacant employer representative position. Following discussion, the Board agreed Paul Johnson – Employer Representative and Michael Foxall – Member Representative would sit on the appointments panel.

Resolved:

1. That it be agreed that Paul Johnson be the employer representative on the Local Pensions Board appointments panel.

2. That it be agreed that Michael Foxall be the member representative on the Local Pensions Board appointments panel.

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# Pensions Board

9 July 2020

<b>Report title</b>	Annual Governance Report	
<b>Originating service</b>	Governance	
<b>Accountable employee</b>	Rachel Howe	Head of Governance and Corporate Services
	Tel	01902 552091
	Email	Rachel.Howe@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
	Tel	01902551715
	Email	Rachel.Brothwood@wolverhampton.gov.uk

## Recommendations for decision:

The Pensions Board is recommended to:

1. Approve the revised Terms of Reference for the Local Pensions Board.
2. Approve the continuation of the roles of the current Chair and Vice-Chair of the Local Pension Board until October 2020, noting the current environment.
3. Approve the nomination from the GMB Trade Union for the vacant member representative seat and the deferment of the completion of appointment to the vacant employer representative seat until October 2020.
4. Confirm the following dates and time of the meetings of the Local Pension Board:

**Pensions Board – 2pm**

9 July 2020  
20 October 2020  
26 January 2021  
27 April 2021

5. Approve the Local Pension Board work-plan for the 2020-2021 municipal year.
6. Approve the Local Pension Board Conflicts of Interest policy.

**Recommendations to note:**

The Pensions Board is asked to note:

1. The Training Policy developed for members of the Fund's governing bodies which was approved by the Pensions Committee on 17 June 2020.
2. The publication of the national Scheme Advisory Board (SAB)'s annual report.

## **1.0 Purpose**

- 1.1 To seek approval for the Annual Governance matters of Local Pensions Board in line with the good governance requirements of the Pensions Regulator and the Scheme Advisory Board (SAB).

## **2.0 Background**

- 2.1 The Local Pensions Board is a statutory Board created by the Public Services Pensions Act 2013 and governed by the Pensions Regulator's (TPR) Code of Practice 14.
- 2.2 The Local Pensions Board is required by statute to publish information about its membership and responsibilities within its LGPS Fund through adopting and publishing a terms of reference. The TPR Code of Practice also require local government pension funds to adopt a conflicts of interest policy setting out how potential conflicts for the local pension board members may be managed.

## **3.0 Local Pensions Board Terms of Reference**

- 3.1 In accordance with best practice, the Board's terms of reference have been reviewed to ensure they remain effective, and compliant with the changing regulatory environment in which the Fund operates.
- 3.2 In consideration of the changing environment in which the Fund operates and noting the potential changes which may result from national review (such as the Good Governance Review and changes to CIPFA knowledge and skills requirements) the terms of reference have been expanded to ensure regulatory changes are clearly incorporated.
- 3.3 In line with the Terms of Reference for the pensions committee and due to anticipated changes arising from the CIPFA knowledge and skills requirement it is proposed that the Local Pensions Board do not accept substitute members, this requirement has been emphasised in the revised terms of reference. Other changes include minor amendments to requirements for making appointments to improve the efficiency of the process.
- 3.4 Following the merger of the West Midlands Integrated Transport Authority Pension Fund with the West Midlands Pension Fund, the Board remit has evolved to consider the West Midlands Pension Fund as a whole. The draft revised terms of reference are presented in Appendix A for the Board's consideration, with main areas of change in blue text. Once approved, these are published on the Fund's website. The current version can be found [here](#).

## **4.0 Local Pension Board Appointments 2020-2021**

- 4.1 In accordance with the terms of reference and cycle of recruitment to the Local Pension Board the Fund received one nomination for the vacant member representative seat; for Tanisha Ayana from the GMB Trade Union. In line with the appointments process, a

panel has not been called to approve the nomination as the process has been undertaken by the relevant trade union. The Board are asked to confirm the nomination.

- 4.2 In light of the ongoing situation with Covid-19 the Board are asked to defer the appointment of an employer representative to the vacant seat until their meeting in October 2020, at which time, it is hoped that in accordance with the appointments process a Local Pension Board Appointments Panel can be convened.
- 4.3 Furthermore, in light of the ongoing situation with Covid-19, cancellation of the Board's April meeting and virtual meeting in July, the Board are asked to defer the annual appointment of Chair and Vice Chair instead seeking continuation of the appointments of the current Chair (Joe McCormick) and Vice-Chair (Adrian Turner) of the Local Pension Board. This is in line with arrangements made for the Pensions Committee. The continuation of these appointments will be a benefit to the Fund during this period of change and uncertainty.

## **5.0 Dates and times of meetings for 2019/2020**

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

### **Pensions Board – 2pm**

20 October 2020

26 January 2021

27 April 2021

- 5.2 The Local Pensions Board now meets four times a year, with meetings held normally within one month of the quarterly Pensions Committee meeting, when outcomes from the Committee, together with any matters the Committee would like the Board to specifically consider, are raised. Any points raised by the Board for consideration by the Committee will be reported to the Committee for consideration no later than the next scheduled Committee meeting. In addition, joint training sessions will be held with the Pensions Committee throughout the year, providing the opportunity for engagement on Fund issues between Pensions Board and Committee members.

## **6.0 Conflicts of Interest Policy**

- 6.1 TPR's Code of Practice requires the Fund's to adopt a conflict of interest policy, confirming how the Fund manages potential conflicts within its Local Pension Board. The Code of Practice makes it clear that membership of the scheme itself is not a conflict.
- 6.2 The conflicts of interest policy sets out the process for managing conflicts. Scheme regulations require the Administering Authority (as Scheme Manager) to be satisfied that persons appointed to the Board do not have conflicts of interest. Any potential or perceived conflicts need managing appropriately to prevent any impact on the Fund. The policy addresses how the Fund can manage potential conflicts, including the appearance of bias.

6.3 A copy of the policy is attached at Appendix B for the Board's comments and approval. In accordance with the policy a register of interests for the 2020-2021 municipal year has been issued to Board members for completion.

## **7.0 Local Pension Board Work-plan**

7.1 Statutory guidance from the SAB on the role of local pensions Boards includes a requirement for local boards to publish information about their work. A copy of the Board's annual work-plan for 2020-2021, which has been developed by Fund Officers in conjunction with the Chair of the Pensions Board is included at Appendix C for approval.

## **8.0 Local Pensions Board and Pension Committee Training Policy**

8.1 The West Midlands Pension Fund believes a well governed scheme is led from the top, by its governing bodies and decision makers. To support the members of those bodies in their roles, equipping them with the knowledge and understanding of relevant issues the Fund has established a formal training policy which details the minimum requirements expected of Pension Board members to support and enable policy decision and oversight of implementation, where delegated.

8.2 The Fund complies with the expectations of the Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework and builds its formal training programme around those topics highlighted as being relevant to Local Government Pension Scheme decision making bodies. CIPFA are currently in the process of reviewing their Knowledge and Skills Framework and the Pensions Regulator continues to develop their Code of Practice which will also set expectation of knowledge and capacity. The Fund are feeding into these reviews and will develop and enhance our policy in accordance with any amendments made.

8.3 The Fund reviews its training policy on an annual basis to ensure it remains compliant with best practice and delivers a comprehensive suite of opportunities for the Board to develop knowledge and understanding. To date no Board member has been asked to leave or has been removed due to failing to meet the knowledge and understanding requirements. The Board are asked to note the training policy, which was approved by the Committee on 17 June and is included at Appendix D.

## **9.0 Scheme Advisory Board (SAB) Annual Report**

9.1 In line with its Regulatory duty, the national Scheme Advisory Board (SAB) has every year since 2013 produced its Scheme Annual Report highlighting national averages in areas such as investment returns, asset allocation, funding and governance.

9.2 The SAB produces its report based on published annual report and accounts of the LGPS Funds across England and Wales. It is therefore produced retrospectively each year. This latest report highlights the aggregated position from the 2019 reports and provides a useful point of reference for a variety of stakeholders.

9.3 The LGPS Highlights for 2019 as noted by SAB include;

- The total membership of the LGPS grew by 37,000 (0.6%) to 5.9m members in 2019 from 5.8m in 2018.
- LGPS employers stood at 15,702 compared to 14,785 in 2018, an increase of 6.2%.
- The total assets of the LGPS increased to £291bn (a change of 5.9%).
- The net return on investment (after costs) over 2018/2019 was 6.2%, reflecting more stable financial market conditions
- The scheme maintained a positive cash-flow position overall, allowing for investment income.
- Over 1.7m pensioners were paid over the year.

9.4 In comparison, WMPF's highlights for the year to 31 March 2019 show;

- The total membership grew from 313,399 to 323,795 (3.3%)
- Employers increased from 623 to 673 (8.0%)
- The Fund's total assets increased from £15.2 billion to £15.7 billion (3.2%)
- The total number of pensioners paid during the year was 95,991 and increase of 4.6% from the prior year.

9.5 Throughout the year, the Scheme Advisory Board has issued a number of communications reporting on the outcomes of their meetings and delivery of their own workplan all of which have been presented to the Local Pension Board and Committee in update reports at formal meetings, through training events or communication round-up's. Copies of SAB meeting papers are available on their website. [www.lgpsboard.org.uk](http://www.lgpsboard.org.uk).

9.6 As has been discussed previously by the Board, Local Pension Boards across the LGPS have been evolving since their introduction in 2015. The SAB were due to issue a further survey of Local Boards during 2019/2020. This work has now been postponed as activities are prioritised following the outbreak of COVID-19. The Fund has facilitated and joined a regional group of Local Pension Board representatives, organised between Funds of the LGPS Central investment pool. Chair and Vice Chair continue to be invited and attend these meetings, attended by representatives of SAB. The Scheduled meeting for July was postponed and is likely to be rescheduled during the Autumn.

## **10.0 Financial implications**

10.1 The cost of the Local Pensions Board is contained within the Fund's Governance budget approved by the Committee at its March meeting.

10.2 A failure to comply with statutory requirements and/or guidance could result in a fine imposed by the Pensions Regulator.

## **11.0 Legal implications**

11.1 The requirement for a Local Pensions Board is set out in the Public Service Pensions Act 2013. It is a statutory body with statutory responsibilities. Failure by an LGPS Fund to comply with the statutory requirements could result in a fine or legal notice being imposed.

## **12.0 Equalities implications**

12.1 The Board's terms of reference, role profile and job description have all been drafted in consideration of the Equality duty. There are no equalities implications.

## **13.0 Environmental implications**

13.1 There are no environmental implications.

## **14.0 Human resources implications**

14.1 There are no human resources implications

## **15.0 Corporate landlord implications**

15.1 There are no corporate landlord implications.

## **16.0 Schedule of background papers**

16.1 Public Service Pensions Act 2013

<http://www.legislation.gov.uk/ukpga/2013/25/contents>

16.2 The Pension Regulator's Code of Practice 14

<https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes>

16.3 Scheme Advisory Board Statutory Guidance for Local Pensions Board

[http://lgpsboard.org/images/Guidance/LGPS\\_Board\\_Guidance\\_FINAL\\_PUBLISHEDv1%201clean.pdf](http://lgpsboard.org/images/Guidance/LGPS_Board_Guidance_FINAL_PUBLISHEDv1%201clean.pdf)

16.4 WMPF Local Pension Board Code of Conduct

<https://www.wmpfonline.com/article/6806/Code-of-Conduct-for-the-West-Midlands-Pension-Fund-Local-Pension-Board>

## **17.0 Schedule of Appendices**

17.1 Appendix A – Local Pensions Board Terms of Reference

17.2 Appendix B – Conflicts of Interest Policy

17.3 Appendix C – Local Pension Board Workplan

17.4 Appendix D - Local Pensions Board and Pensions Committee Training Policy

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## Appendix A - Pensions Board - Terms of Reference

1. This document sets out the terms of reference of the Local Pension Board of the City of Wolverhampton Council (the 'Administering Authority'), a Scheme Manager as defined under Section 4 of the Public Service Pensions Act 2013. The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
2. The Board is established by the Administering Authority to perform duties in relation to the West Midlands Pension Fund and operates independently of the Pensions Committee. Relevant information about its creation and operation are contained in these Terms of Reference.
3. The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme, as follows:
  - secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
  - to ensure the effective and efficient governance and administration of the Scheme.
4. All persons appointed to the Board will adhere to the Fund's Code of Conduct and the seven principals of public life (known as the Nolan Principles), including the duty to report conflicts and undertake training as required to ensure they meet the legislative requirement to have the knowledge and understanding required of them to undertake their role.
5. While not a formal committee of Council, meetings of the Pensions Board will be formal occasions to be minuted adhering to the due process and rules of procedure so far as such do not make the business of the board unviable. Business to be conducted by the Pensions Board shall be noted on a formal Agenda at least five working days in advance of the meeting. Additional business may be added to the Agenda at a later date with the consent of the Chair. Business not noted on the Agenda may only be considered at the meeting if agreed by majority vote. This is to ensure all information is available and has been read and understood by Pensions Board members.
6. The Pensions Board shall meet a minimum of four times a year on a quarterly basis. The ability to call additional meetings rests with the Board and with Pensions Committee; such additional meetings to meet the minimum quorum requirement. ~~and to follow the procedure for calling for a public meeting.~~
7. Persons appointed to the Pensions Board have the same right of access to information and documents to be considered as elected members as outlined in The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 and the The Openness of

Local Government Bodies Regulations 2014. Save as all other provisions of these regulations do not apply to the Pensions Board.

8. The Pensions Board shall adhere to the operational policies of the Fund.

### Membership

9. The Pensions Board consists of 12 persons made up of 6 employer and 6 member representatives in equal proportion 2 of which will be Elected Members of the Administering Authority. [Substitutes shall not be appointed.](#)
10. [Representatives \(both employer and member\) should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.](#)
11. Recruitment to the Board will follow the Fund's '*Pensions Board Nomination Policy*'.
12. [The quorum is four, two members from each category. If either the Chair and the Vice Chair are not present a Chair will be nominated by majority from those in attendance.](#)
13. The term of office for a person appointed to the Pensions Board shall be for a period no shorter than one year and no longer than two rotations of nominations or their term of office (where the person is an elected councillor, whichever is the shortest). Nomination to the Pensions Board shall take annual rotation with one-third nominations received in year 2 and one-third nominations each year thereafter. This is to ensure a consistency of knowledge within the Pensions Board and to assist with the development of knowledge and experience. [Where vacancies occur in year the nomination process will follow and there will not be an annual nomination for that seat in the same year.](#)
14. Nominations to the Pensions Board will be sought from the nominating body group on each occasion as the rotation for appointment arises. Trade Union member representatives will be nominated by the relevant Trade Union. Where more than one nomination is received for employer representatives from the Fund employer base, interviews for the vacant position will be held by the Chair or Vice Chair (where they are not on rotation) ~~one employer and one member representative,~~ together with the Director of Pensions (or their nominated officer) [and the Director for Governance and Corporate Services.](#)
15. Person's appointed to the Pensions Board are expected to make themselves available to attend meetings and to complete relevant training. Person's appointed who fail to meet the 22 hour training target and/or attend less than two meetings and one structured training event each year will be asked to leave the Board and a replacement sought from their nominating body unless there are exceptional reasons for their failure to attend. Such reasons to be considered by the Pensions Board.

16. Other than by ceasing to be eligible to sit on the Pensions Board (to include failure to attend meetings), a person appointed to the Pensions Board may only be removed from the position during their term of office by majority vote of the Pensions Board.
17. A person appointed to the Pensions Board may retire their position at any time. In such cases, a nomination will be sought from their nominating group.

### **Chairing the Board**

18. It shall be the first business of the Board at its annual meeting to nominate a Chair and a Vice-Chair for that year, [nominations for the Chair and Vice Chair will rotate between member and employer representatives on an annual basis.](#)
19. In the event of a tie of votes of any business to be conducted, the Chair will have the casting vote. In circumstances where the vote is to appoint a new Chair, the outgoing Chair will have the casting vote in the event of a tie.

### **Conflicts of interest**

20. [All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any real, potential or perceived conflict of interest which may impact their position on the Board.](#)
21. [A conflict of interest is defined in the Board's Conflicts of Interest Policy which is periodically reviewed by the Board, issued to all new Board members and is available on the Fund website.](#)
22. [On appointment to the Board and following any subsequent declaration of a potential conflict by a Board member, the Fund shall ensure that any potential conflict is effectively managed in line with both the internal procedures of the Board's conflicts policy and the requirements of the Code.](#)

### **Voting Rights**

23. [Each member representative and employer representative will have one vote. Where there is the same number of votes the Chair shall have the casting vote.](#)

### **Knowledge and understanding (including Training)**

24. [Individual Pension Board members must ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board and includes a requirement to undertake a minimum 22 hours training per year.](#)

25. To ensure that knowledge and understanding requirements are met the Fund have established a Pensions Committee and Board Member Training policy that will be reviewed and approved on an annual basis. Board members should attend and participate in training arranged in order to meet and maintain the 22 hours requirement.

### Information

26. Information relating to the work of the Pension Board (including any relevant minutes) is available to the public (with the exception of exempt matters) and will be published on the Administering Authority's website with the exception of when such information is confidential or exempt under Schedule 12A.

27. Information detailing the Pensions Board's terms of reference shall be published on the Fund's website together with the any vacancies as they arise.

28. An agenda will be agreed prior to each meeting. The agenda and supporting papers will be issued at least five working days in advance of the meeting (except in matters of urgency).

29. Draft minutes of each meeting (including actions and agreements) will be circulated to all Board members following the meeting and be subject to formal agreement by the Board at their next meeting.

30. In accordance with regulations the Fund will publish information about the Board, this information will include:

- The names of Board members and their contact details.
- The representation of employers and members on the Board.
- The role of the Board.
- These Terms of Reference.

All or some of this information is on the Fund's website and where appropriate as part of the Fund's Annual report and Governance Compliance Statement.

### Review of terms of reference

31. These Terms of Reference shall be reviewed on each material change to those part of the Regulations covering local pension boards and at least annually.

### Version Control

Version	Author	Document Title	Approved By	Approval Date	Next Review
1	Rachel Howe	Local Pensions Board Terms of Reference	Local Pensions Board		March 2021

## Local Pensions Board Conflicts of Interest Policy

### Legislative Background

The Public Services Pensions Act 2013 (the Act) makes it a legal requirement that members appointed to the Local Pension Board do not have a conflict of interest. In addition, the Pension Regulators Code of Practice 14. Governance and Administration of Public Services Pension Funds requires LGPS Funds to establish a conflicts of interest policy which sets the process for managing actual and potential conflicts.

Legislation defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pensions Board.

### What is a Conflict

As stated above a conflict of interest is defined as a financial or other interest which is likely to prejudice a person's judgement / exercise of functions as a member of the Local Pensions Board.

A conflict of interest may arise when an individual has a responsibility or duty in relation to the management of, or provision of advice to, the West Midlands Pension Fund, and at the same time has a separate personal interest (financial or otherwise) or another responsibility in relation to that matter, giving rise to a possible, or perceived conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter. A conflict can also include bias (actual or perceived), bias is defined as the action of supporting or opposing a particular view because of personal opinions or judgements. Example of bias or potential bias could occur where employer representatives on the have taken a decision at their employer to refuse a higher contribution rate.

Conflicts and bias do not include financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme.

Employer representatives sitting on the Local Pensions Board may be conflicted if discussions regarding their employer are taking place, employer representatives will be required to declare their interest and leave the discussion in that scenario. Being an employer representative in itself, is not a conflict.

For information examples of Conflicts of Interest are Included Below;

- As a result of their position on the Pension Board a board member could become aware of a scheme change that will affect a family member and advise that family member of the impact of their pension.
- A finance officer appointed to the Pensions Board as an employer representative might be required to review a decision that would could involve additional work or cost to their employer to improve scheme administration.
- The Board may be asked to consider an item of business which affects or is connected to a family member or close acquaintance.

## Procedure

For this policy to be effective Local Pension Board Members should agree to, declare actual and potential conflicts of interest to the Head of Governance and Corporate Service, provide information required to assess whether an actual or potential conflict of interest exists and agree how conflicts will be managed.

In accordance with best practise the Fund takes a 3 – stage approach to managing conflicts of interest; Identifying, monitoring and managing;

- **Identifying**  
On appointment and on an annual basis, Local Pensions Board members will be asked to declare potential conflicts, a conflict of interest form is attached to this policy at appendix 1. In accordance with procedure an opportunity to declare conflicts is also provided at the start of all meetings of the Local Pensions Board.
- **Monitoring**  
The Fund maintains a register of interests for members of the Local Pensions Board, interests declared at meetings should be included within the register within 28 days of the meeting (written declaration is required). For transparency a copy of the register is published on the Fund's website and is open to public scrutiny.
- **Managing**  
Where a Member has a potential conflict of interest they are required to declare that interest on the register and at the meeting at which the matter in which they have an interest is to be discussed. Once a declaration has been made the member must not take part in the discussion where the matter is being addressed.

Members should seek advice with regards to the declaration and management of potential conflicts of interest from the Head of Governance and Corporate Services. Members who have a conflict of interest will not ordinarily be required to resign from their position. It is the aim of this policy to adequately manage conflicts in order to allow individual's to retain their role on the Local Pension Board.

## Sensitive Interests

Members may be exempt from declaring their interests on a public register if it is determined to be a sensitive interest.

Sensitive information is defined as

*“the nature of the interest is such that a Local Pensions Board member, and the Head of Governance and Corporate Services, consider that disclosure of the details of the interest could lead to the member, or a person connected with the member, being subject to violence or intimidation”*

Advice should be sought from the Head of Governance and Corporate Services where the possibility of a sensitive interest exists.

## Pension Board Work Programme 2020 - 2021

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

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

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.	Training Requirements
	Customer Engagement	To monitor the effectiveness of the customer engagement strategy	<p>Each meeting - the board will be presented with KPI's to monitor the Fund's performance and delivery of the customer engagement strategy and plan.</p> <p>October 2020 – review of feedback and development of engagement strategy for the forthcoming year</p>	Best Practice – to ensure the Fund meets its objectives	
	Internal Audit	To receive reports from the Fund's Governance and Compliance team reviewing the implementation of actions from completed internal audits to ensure completion.	<p>July 2020 - Board to receive the plan for forthcoming internal audits.</p> <p>July 2020 - Annual review of internal reports completed during 2019-20.</p>	Best Practice – to ensure independent recommendations are implemented.	

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.	Training Requirements
	Regulatory and legislative updates	To receive updates on potential changes to regulation and government policy which may affect the LGPS and the Fund, including SAB's Good Governance review and TPR's single code of practice. In order to ensure the Fund is well-positioned to manage those changes.	As required	Compliance review.	Training to be provided as required.
	Breaches Log	To review the Fund's Breaches log and the actions taken by the Fund to resolve/mitigate those Breaches.	The Board will receive and update on breaches and actions taken to resolve them at each meeting.	Compliance Review	
	Data Protection	To review the progress of Fund's Data Protection (GDPR) Assurance Work.	January 2020	Compliance Review	
	Knowledge and Understanding - Officers and Pension Committee /	Review training policies and plans for officers and Pensions Committee / Board Members to ensure	July 2020  Updates on the training plan and recorded hours are	Compliance Review and Best Practice.	

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.	Training Requirements
	Local Pension Board Members	adequacy / compliance with legislation.	delivered to members quarterly		
	Local Pension Board Governance	Review Local Pension Fund Governance arrangements and policies i.e. Terms of Reference and Conflicts of Interest Policy.	July 2020	Compliance Review and Best Practice	
	Risk Register	Review risks and mitigating actions	Each meeting - The Board will receive a risk register update.	Best Practice	Risk Reporting – new process for monitoring and reporting risks.
<b>Fund administration</b>					
	Data Quality	To monitor the delivery of the Fund's Data Improvement Strategy	July 2020, with monitoring report to each meeting	Best Practice – to assist the Fund in its management of member data and contributions.  Compliance review – Ensuring that requirements relating	

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.	Training Requirements
				to ABS statements are met.	
	Pension Administration Strategy	To monitor the performance of Fund employers in line with Strategy  To monitor the implementation of the strategy including its charging structure.	October 2020- Board to be presented with agreed strategy following consultation	Best Practice	
	Actuarial Valuation – process	To monitor and review the Fund's process for the approval for the 2020 Actuarial Valuation including the Fund's approach to managing engagement with employers	July 2020	Best practice/event driven – to assist in the building of relationships with the employer base.	
	Administration Benchmarking	To review the Funds performance in comparison to comparator Fund's.	January 2021	Best practice – to identify potential areas for improvement.	

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.	Training Requirements
<b>Investment</b>	Investment Strategy and Implementation	To receive updates on the Fund's work in this area, including the development of the LGPS Central pool – governance and asset transition.	July 2020	Compliance review – ensuring the Fund meets its legislative duty to achieve efficient investment returns and meets legislative requirement for investment pooling, adhering to relevant and up to date guidance.	Investment risk and assurance.
	Investment Benchmarking	To review the Funds' performance in comparison to comparator Fund's.	January 2020	Best practice – to identify potential areas for improvement.	
<b>Finance</b>	Annual report and accounts	To consider the Fund's annual report as well as the Scheme Advisory Board report following publication	October 2020, following the audit and approval of the Statement of Accounts and Annual Report	Compliance review – ensuring the Fund meets its legislative duty in the production and publication of an annual report, adhering to relevant	

Role	Area of work	Action	Date	Purpose of work Compliance Review/Best Practice or Event driven.	Training Requirements
				and up to date guidance.	

West Midlands Pension Board  
Policy Review Plan 2020 - 2021

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

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Investment Strategy Statement (ISS)	Assistant Director, Investments and Finance	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Compliance – investment strategy and implementation typically reviewed and updated alongside each triennial valuation and in line with key market influences and world events	July 2020
Responsible Investment Framework*	Assistant Director, Investments and Finance	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Best Practice – outlines Fund beliefs and approach to integration with investment strategy. Supplements the ISS	July 2020
Climate Change Framework and Strategy	Assistant Director, Investments and Finance	Annually to confirm relevant and that legislative duty has been complied with	Best Practise – Outlines how the Fund will address climate related risk and opportunities	October 2020

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Compliance with the Stewardship Code for Institutional Investors	Assistant Director, Investments and Finance	Annually	Best Practice – the Fund’s supports and seeks to apply principles in investment activities.	October 2020
Risk and Assurance Framework*	Assistant Director, Investments and Finance	Annually	<p>Best Practice – to ensure the Fund’s approach to investment is managed in consideration of risk</p> <p>To ensure the Fund has in place an appropriate risk register ensuring the Fund mitigates against potential impacts</p>	July 2020
Customer Engagement Plan	Head of Pensions	Annually	Best Practice – broadens the communication policy to review effective engagement	July 2020

Name of Policy	Responsible Officer	Frequency of Review	Requirement	To be considered by Pension Board
Communications Policy*	Head of Pensions	Annually to confirm relevant and up to date and ensure the legislative duty has been complied with	Compliance – legal duty to publish a communications policy outlining how we communicate and with who	October 2020
Customer Feedback Policy	Head of Governance and Corporate Services	Annually	Event driven	October 2020
Administering Authority Policy Statement*	Head of Operations	Annually to confirm legislative duty has been complied with	Compliance – published policy on the exercise of discretionary administration functions	July 2020
Local Pensions Board Annual Governance (Terms of Reference, Conflicts of Interest Policy, Pension Board Member Conduct Review Policy)	Head of Governance and Corporate Services	Annually in line with statutory guidance from the Scheme Advisory Board	Compliance – to outline how the Fund will manage complaints against Board members. Required under the Public Service Pensions Act 2013	July 2020

<b>Name of Policy</b>	<b>Responsible Officer</b>	<b>Frequency of Review</b>	<b>Requirement</b>	<b>To be considered by Pension Board</b>
Freedom of Information and Data Protection	Head of Governance and Corporate Services	Annual review of the information governance policies	Review adherence to regulatory requirement	January 2020
Policy on Termination Funding for Employers (Addendum to FSS)	Head of Pensions	Annually monitored to confirm legislative duty has been complied with	Best Practice – formally reviewed as part of each triennial valuation	July 2020
IDRP	Head of Operations	When required – Changes in legislation or process	Compliance – Process for dealing with internal disputes regarding members' pension benefits.	January 2020

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

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

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# TRAINING POLICY STATEMENT JUNE 2020



West Midlands Pension Fund

## SCOPE

The Fund is required by law (section 248a of the Public Service Pensions Act 2013), and statutory guidance (Pensions Regulator's Code of Practice no. 14 Governance and Administration of Public Service Pensions Schemes and Scheme Advisory Board Statutory Guidance), to ensure that members of the Local Pensions Board, have an appropriate level of knowledge and understanding, to enable individuals to exercise the functions of the roles they have been appointed to.

Whilst it is acknowledged that legal requirements for knowledge and understanding currently relate to members of the Local Pensions Board, the Fund's Pension Committee, as the decision making body has, as a matter of good governance, adopted the requirements of training also. As such, this policy applies to individuals appointed to both the West Midlands Pension Fund's Local Pensions Board and the Pensions Committee as outlined in their terms of reference.

## BACKGROUND

Individuals appointed to the Local Pensions Board or Pensions Committee must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of West Midlands Pension Fund which is for the time being adopted in relation to the scheme.

In addition, individuals must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of the role that they have been appointed to. Individuals are required to invest sufficient time in their learning and development in order to meet required standards relating to knowledge and understanding. These standards are applicable from appointment and apply to individuals rather than either the Local Pensions Board or Pensions Committee as a whole. However, the Fund acknowledges that individuals are not expected to become technical experts but have the ability to interpret and challenge the information provided by Fund Officers and contribute effectively to discussions and decisions made.

- members get the right benefits at the right time; and
- actuarial valuations accurately reflect pension benefit obligations and funding requirements for the Fund's employers when reviewing contribution rates.

## PURPOSE

The aim of this policy is to outline the duties and responsibilities of persons appointed to the Committee or Local Pensions Board to comply with statutory expectations on knowledge and understanding and to assist individuals in meeting these requirements through an effectively managed program of development. In conjunction with this policy, the Fund has established an annual training plan linked to CIPFA's Knowledge and Skills Framework.

## IMPLEMENTATION

Upon appointment members of the Local Pensions Board and Pensions Committee will be provided with a detailed handbook and invited to attend an in-house induction training session facilitated by Fund Officers. This will provide an overview of their role and responsibilities (including those related to training) together with details of key policies and current issues.

An annual training plan will be produced by Fund Officers, linked to CIPFA's Knowledge and Skills Framework to ensure that training is delivered effectively and focusses on key knowledge areas. Regular reviews will be undertaken to identify areas for further development identified by CIPFA in the Knowledge and Skills Framework and to take into account any changes to regulation, together with individual's own self-assessment of their knowledge and understanding of the issues they are being asked to consider at their regular meetings.

Members of the Local Pensions Board and Pensions Committee are requested to commit to undertaking minimum training requirements annually, in order to fulfil knowledge and understanding requirements with an expectation that all complete The Pension Regulator's toolkit within the first six months of appointment.

Training is not limited to the above, Local Pensions Board and Committee members will have the opportunity to build knowledge and skills through other events offered by the Fund, including opportunities to network with colleagues and counterparts from other LGPS Funds as well as through independent reading. Further support will be available through the facilitation of quarterly training sessions held either prior to or proceeding meetings of the Local Pensions Board and Pensions Committee, with the aim of developing understanding of the information included on meeting agendas.

Where training is being delivered on specialist topics the Fund may invite external stakeholders and experts to deliver sessions where appropriate.

## MONITORING

The Fund will maintain appropriate records of all learning and development activities undertaken by members of the Local Pensions Board and Pensions Committee. In accordance with best practice this information (individual training hours) will be reported in the Fund's annual report and accounts with regular updates reported to the Chair of Pensions committee and the Chair of Pensions Board.

## SUPPORT

To support members of the committee and pensions board undertake their role, the Fund has appointed a governance officer with responsibility for day-to-day engagement with members offering support and information to help them achieve their training requirements.

West Midlands Pension Fund  
PO Box 3948  
Wolverhampton  
WV1 1XP

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report title</b>	Internal Audit Annual Report 2019 – 2020 and Internal Audit Plan 2020 – 2021	
<b>Originating service</b>	Pensions Services	
<b>Accountable employee</b>	Amanda MacDonald	Client Lead Auditor
	Tel	01902 55 0411
	Email	<a href="mailto:Amanda.macdonald@wolverhampton.gov.uk">Amanda.macdonald@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
	Tel	01902 55 1715
	Email	<a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Board is asked to note:

1. The internal audit report for 2019 – 2020.
2. The internal audit plan for 2020 – 2021.

## **1.0 Purpose**

- 1.1 To provide the Board with the outcome of the work programme for internal audit for 2019 – 2020 and to outline the work programme for internal audit during 2020-2021.

## **2.0 Background**

- 2.1 The role of internal audit is to provide the Director of Pensions, Section 151 Officer, the Pensions Committee and the Local Pensions Board with an independent and objective opinion on the Fund's risk management, internal controls and governance and its effectiveness in achieving the Fund's agreed objectives. In order to provide this opinion, we are required to review the risk management and governance process.

## **3.0 Internal Audit Annual Report 2019 – 2020**

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

## **4.0 Work Plan 2020 - 2021**

- 4.1 A copy of the agreed work plan for 2020 – 2021 is attached at Appendix B. This has been reviewed and discussed with the Fund's Senior Management Team, in consideration of the current Covid pandemic the internal audit plan has been developed to focus on key areas of review to ensure good governance and assurance in the Fund's practices. The plan will be reviewed throughout the remainder of the year noting potential strains on resources during this time.

## **5.0 Financial implications**

- 5.1 Internal audit is a key part of the Fund's governance and financial control framework, and seeks to provide assurance that the Fund's systems, processes and controls are operating effectively and in support of the Fund's overall aims and objectives.

## **6.0 Legal implications**

- 6.1 This report contains no direct legal implications.

## **7.0 Equalities implications**

- 7.1 This report contains no equalities implications.

## **8.0 Environmental implications**

8.1 This report contains no environmental implications.

**9.0 Human resources implications**

9.1 This report contains no direct human resources implications.

**10.0 Corporate landlord implications**

10.1 This report contains no direct corporate landlord implications.

**11.0 Schedule of background papers**

11.1 None.

**12.0 Schedule of Appendices**

12.1 Appendix A – Annual Audit Report 2019 - 2020

12.2 Appendix B - West Midlands Pension Fund Internal Audit Plan 2020 -2021

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Appendix A

# West Midlands Pension Fund

Internal Audit Annual Report 2019/2020



## 1. *Introduction*

Our internal audit work for the period from 1 April 2019 to 31 March 2020 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Fund's governance, risk management and control processes. In this way our annual report provides one element of evidence that helps to confirm the control environment of the Fund and supports the Annual Governance Statement for the City of Wolverhampton Council which it is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Fund as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Fund may rely, include:

- The work of the External Auditors (Grant Thornton)
- The result of any quality accreditation
- Other pieces of consultancy or third- party work designed to alert the Fund to areas of improvement
- Other external review agencies.

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

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

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

### *Executive Summary*

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

- All audits undertaken for the year ended 31 March 2020.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The Fund's Strategic Risk Register.

### Internal Audit Opinion

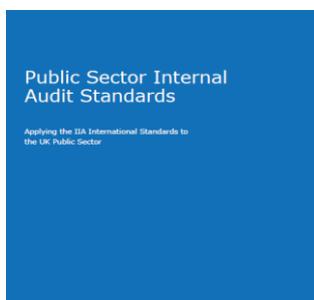
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

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

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

- We have had unfettered access to all records and employees during 2019-2020.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance identified as a result of our audit work performed in the year.
- While stand-alone reviews of governance and risk management are not undertaken, consideration of both these issues are implicit in all internal audit work. Similarly, assurance is gained from the regular review of the Fund's Strategic Risk Register.

### Compliance with the Public Sector Internal Audit Standards



The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the City of Wolverhampton Council's Audit and Risk Committee.

### Summary of work completed

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

Further, an audit opinion is provided for each report issued, this sets out our overall opinion regarding the control environment for the area audited. Three opinions are provided:

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

## 2. Summary of work undertaken

### Planned audit reviews

The following audit reviews were completed during the 2019-2020 financial year.

Audits Completed	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Risk Management Review	Med	-	-	3	3	3	Substantial
Recruitment and Retention of Employees	High	-	1	3	4	4	Satisfactory
Accounts Receivable	High	-	3	4	7	7	Satisfactory
Accounts Payable	High	-	-	2	2	2	Substantial
Main Accounting	High	-	-	4	4	4	Substantial
Treasury Management	High	-	2	1	3	3	Satisfactory

#### Risk Management

The Fund's risk register is key to the Fund's overall internal control framework and a strong risk framework is essential for the Fund to gain assurance on its activities. We reviewed the framework together with the risk cycle, including identification, analysis, control and monitoring of risks and found that strong monitoring procedures were in place and testing confirmed evidence of challenge and review of risks.

#### Recruitment and Retention

Our review focussed upon what controls the Fund had in place to address the resource and skill risks identified in CIPFA's "Managing Risk in the Local Government Pension Scheme". We noted that the Fund had developed a five-year service plan which highlighted the importance of people resources and detailed workings to support budgetary provision were maintained, including the control of agency costs. Further, different approaches to resourcing were used such as secondments, shared services and outsourcing. One amber recommendation was made and agreed with management regarding the absence of an updated workforce development strategy.

#### Accounts Receivable

At the time of audit, the total debt profile for the Fund was £18.2m. This audit sought assurance that robust monitoring and management arrangements were in place. We found suitable controls for raising debtor invoices, monthly aged debt reports were reviewed and regular reconciliations between accounts receivable and the general ledger were undertaken. However, the Fund did not have a current Debt Monitoring and Write-Off policy, there were a number of debts over two years old which required review and we noted potential control weakness in the process for raising credit notes. All recommendations have been agreed with management.

#### Accounts Payable

At the time of audit, the value of invoices paid in 2019/20 was £24M across approximately 1,500 invoices. Whilst a substantial assurance rating was given, it was considered that the manual systems used by the Fund would be placed under strain and risks would be increased if invoice numbers increased. However, we found that appropriate checks were undertaken

when setting up a creditor reference and workflows were in place to authorise new and amended creditor references. There was an appropriate separation of duties and reconciliations were undertaken between the accounts payable and general ledger systems.

### **Main Accounting**

The review of main accounting processes with the Fund found no significant weaknesses. The budgets were available within Business World, monthly budget monitoring was taking place, together with quarterly budget forecasts presented to Pensions Committee. The closure of the 2018/19 accounts was achieved on a timely basis, in accordance with legislation. Regular bank reconciliations were being prepared and system reports to reconcile Accounts Payable and Accounts Receivable to the General Ledger were reviewed every week. Further, closing balances in 2018/19 successfully reconciled to opening balances in 2019/20 within Business World.

### **Treasury Management**

At the time of audit, there was approximately £120M of cash invested in money market funds. We identified that further action needed to be taken in order to be able to fully demonstrate compliance with CIPFA's Treasury Management in the Public Services - Code of Practice, and issues with retaining evidence in support of the daily operational processes for the treasury management activities were identified. It was not possible to evidence a full audit trail to demonstrate a segregation of duties. In addition, transactions were not being added on a timely basis to ICON. However, these issues have since been addressed by management and revised procedures adopted.

### *LGPS Assurance Work*

As a member of the Internal Audit Working Group with our Partner funds, the following work has also been completed during the year.

<b>Work Completed</b>	<b>Details</b>
LGPS Ltd Internal Controls Progress Report. (LGPS Ltd is the company owned by partner funds, to manage the pooled assets of the eight midlands Local Government Pensions Schemes).	A review of LGPS Ltd self-assessment of the design, implementation and operating effectiveness of controls within the company. This is in preparation for the full assurance report (AAF) expected in 2020 from the company.
Review of the LGPS Asset pooling and Governance Report	In conjunction with the partner funds internal auditors, and agreed audit programme, we reviewed the report produced by Staffordshire County Council which assessed the governance arrangements for the pool.
Control of Investments by LGPS Ltd Audit Review	In accordance with the agreed audit programme, we are leading on the audit review of pool investment arrangements, concentrating on communications, provision of information and engagement between LGPS Ltd and partner funds.
Internal Audit Working Group	Continued membership and participation in the partner fund internal audit working group.

### *On-going assurance work*

#### *Counter Fraud Activities*

We continue to act as the Fund's key contact for the National Fraud initiative along with providing details of initiatives put in place, in order to both raise awareness of, and tackle fraud.

#### *Follow up of previous recommendations*

We also continue to monitor the implementation of previous key recommendations. An annual review of agreed key actions from reviews is undertaken and reported.

#### *Consultancy and advice work*

In addition to the planned audits completed in the year, we have also been involved in consultancy and advice projects including a review of the requirements for an external pensions administration standards accreditation (PASA). Participation in training to Pensions Committee and Board members and the provided advice to the finance team as they introduced new working practices. Further, we continue to work with the Governance Team in developing good governance arrangements throughout the Fund.

As part of ongoing support to the Fund, we completed 25 credit checks using Dunn and Bradstreet to review individual organisations financial stability when seeking admission to the Fund.

# West Midlands Pension Fund Internal Audit Plan 2020-2021



West Midlands Pension Fund

Appendix B



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1	Introduction
2	Assessing the effectiveness of risk management and governance
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## 1. Introduction

- 1.1 The purpose of internal audit is to provide the Director, Pensions Committee, Board and Section 151 Officer with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Fund's agreed objectives. In order to provide this opinion, we are required to review annually the risk management and governance processes within the Fund. We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.
- 1.2 The purpose of this document is to provide the Fund with an internal audit plan for the 2020-2021 financial year. This plan has been subject to Senior Management Team approval and individual audit dates and timings will be agreed with individual managers during the year. It should be noted that the plan has been considered and amended in response to the early implications arising from Covid-19. The plan will continue to be reviewed throughout the year in order to identify if further issues arise from Covid-19 related matters.

## 2. Assessing the effectiveness of risk management and governance

- 2.1 The effectiveness of risk management and governance will be reviewed, where appropriate, annually, to gather evidence to support our opinion to the Director, Pensions Committee, Board and Section 151 Officer. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

## 3. Assessing the effectiveness of the system of control

- 3.1 In order to be adequate and effective, management should:

Establish and monitor the achievement of the Fund's objectives and facilitate policy and decision making.

Identify, assess and manage the risks to achieving the Fund's objectives.

Ensure the economical, effective and efficient use of resources.

Ensure compliance with established policies, procedures, laws and regulations.

Safeguard the Fund's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

Ensure the integrity and reliability of information, accounts and data.

The plan contained in this report is our assessment of the audit work required to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

#### 4. The assessment of assurance needs - identifying the Fund's objectives and the associated risks

- 4.1 Internal audit should encompass the whole internal control system and not limited to only financial controls. The scope of internal audit work should reflect the key objectives of the Fund and the key risks it faces.

The following are the Fund's Core Objectives:

- **P** Partnering for success
- **R** Responsible asset owner, employer and local community partner
- **I** Investing to increase capacity
- **D** Drive efficiencies and cost savings
- **E** Engage to improve outcomes for customers

- 4.2 These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control.

The Fund has identified the following key risks which may potentially impact on its ability to achieve its objectives:

#### **WMPF Key Risks: extract from latest risk register**

##### **Pooling:**

- Transition timeline slips causing additional cost/ resource on the fund
- Investments not reflecting Funds investment strategy putting investment returns at risk
- Resourcing – insufficient resources to manage legacy assets
- Ineffective strategy or investment requirements leading to stalling with transition of assets and possible failure to deliver cost savings
- Stakeholder delay on key issues leading to ineffective decision making and partnership working
- Cost savings fail to be delivered - higher regularity and other costs, anticipated savings do not materialise

##### **Investments:**

- Fund not achieving investment returns in line with longer term strategic objectives
- Brexit Uncertainty
- Climate Change

##### **Finance:**

- Non-payment or receipt of monies due to the Fund

**Governance:**

- Change in government policy / LGPS reforms
- Fund resource and key main risks including failure to recruit and retain staff with the right experience, qualification and skill sets
- Outcomes from the McCloud and Sargeant court cases impacting on funding and resource where data remedy is required

**Operations**

- Failure to adhere to statutory regularity requirements
- Poor quality and / or late deliveries / upgrades by PAS provider leading to an inability to process member data creating backlog and /or delays

**Pensions Services**

- Failure to adhere to the Pensions Administration Strategy

## 5. The framework of assurance

5.1 The framework of assurance aims to satisfy an organisation that the risks to its objectives and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation. The assurance framework will comprise a variety of sources and not only the work of internal audit.

In addition, we work closely with our partner funds to ensure that the LGPSC Pool has an appropriate assurance framework. This includes membership of the Internal Audit Working Group.

We also work with the Fund’s external auditors to share knowledge and audit information.

### **Assessing the risk of auditable areas within the assurance framework**

5.2 Risk is defined as “The threat that an event or action will adversely affect an organisation’s ability to achieve its business objectives and execute its strategies.”

(Source: Economist Intelligence Unit - Executive Briefing)

5.3 There are a number of key factors for assessing the degree of assurance need within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:

- Materiality
- Business impact
- Audit experience
- Risk
- Potential for fraud

- 5.4 In this model, the assignment of the relative values are translated into an assessment of assurance need. These ratings used are high, medium or low to establish the frequency of coverage of internal audit.

## 6. Developing an internal audit plan

6.1 The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the Fund's own risk analysis/assessment. The plan has been designed to, wherever possible, cover the key risks identified by such risk analysis.

6.2 In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.

It is recognised that a good internal audit plan should achieve a balance between clearly setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year.

Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.

6.3 Included within the plan, in addition to audit days for field assignments are:

- a small contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
- an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various management meetings and committees etc.

## 7. Considerations required of the Pensions Committee, Board and senior management

Does the plan include all the areas which would be expected to be subject to internal audit?

Does the plan cover the key risks as they are recognised?

Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?

## 8. How the internal audit service will be delivered

### Resources required

The audit plan will be delivered by the City of Wolverhampton Council's internal audit team.

### **Communication of results**

The outcome of internal audit reviews is communicated by way of a written report on each assignment undertaken. However, should a serious matter come to light, this will be reported to the appropriate level of management without delay.

### **Staffing**

Employees are recruited, trained and provided with opportunities for continuing professional development and are sponsored to undertake relevant professional qualifications. All employees are subject to the Council's appraisal scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

### **Quality assurance**

All audit work undertaken is subject to robust quality assurance procedures as required by the Public Sector Internal Audit Standards.

### **Combined assurance**

We will work in conjunction with the company's external auditors and other assurance providers to ensure that the assurance both internal and external audit can provide, is focussed in the most efficient manner and that any duplication is eliminated.

## 9. Proposed Audit Services Plan 2020 -2021

Audit Area	Audit	Risk Rating
Governance	<p>Risk Management</p> <p>To provide assurance that revised risk management arrangements and reporting are robust and fully reflect Fund operations. The review will include two audits:</p> <ul style="list-style-type: none"> <li>• Governance and Administration risks.</li> <li>• Investment risks</li> </ul>	High
Operations	<p>Cyber Security</p> <p>To review Fund procedures to ensure compliance with the Pension Regulator's new single code of practice. (this details that funds should not be reliant upon their administering authority's policy). Additionally, a review of operational security measures including working from home in a response to Covid-19.</p>	High
Operations / Finance	<p>Integrated Transport Authority / Main Fund merger</p> <p>To review the processes for the merger of the ITA with WMPF, ensuring adherence to the agreed project plan.</p>	High
Pensions Administration	<p>Guaranteed Minimum Pension Project – Reconciliations</p> <p>A review of processes to correct employee data following the completion of the GMP reconciliation exercise.</p>	High
Pensions Administration	<p>Covenants</p> <p>To ensure the Fund have a robust framework to monitor and adjust covenants in accordance with the triennial valuation.</p>	High
Operations	<p>Transfer Outs</p> <p>To review the controls and processes for members who select to transfer their pension out of the Fund.</p>	Medium
Finance	<p>Investments review</p> <p>Management arrangements for investments retained by the Fund</p>	Medium
Finance	<p>System access arrangements</p> <p>To ensure appropriate controls are in place to allow access and authorisation of transactions.</p>	Medium
<b>Other Related Internal Audit Work</b>		
Follow up Reviews	To review the implementation of agreed actions from the previous financial year (extended review for the Finance audits undertaken)	
Counter Fraud	To oversee the Cabinet Office's National Fraud Initiative exercise on behalf of the Pension Fund and any other work relating to counter fraud as requested by management.	

Contingency and Consultancy	Special projects, advice and assistance as and when required
Pensions / Board reports	The preparation of committee reports and attendance at committee
Management	The management of the internal audit function

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report title</b>	Legal and Compliance Update	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Rachel Howe	Head of Governance
	Tel	01902 55 2091
	Email	<a href="mailto:Rachel.Howe@wolverhampton.gov.uk">Rachel.Howe@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
	Tel	01902 55 1715
	Email	<a href="mailto:Rachel.Brothwood@wolverhampton.gov.uk">Rachel.Brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Board is asked to note:

1. The risk movements, as reported and monitored through the year from April 2019 – March 2020.
2. The latest strategic risk-register and areas being closely monitored in the current environment.
3. The Fund's Investment Risk and Assurance Framework developed as part of the Fund's Internal Controls Framework.
4. The compliance monitoring activity undertaken during the quarter

## **1.0 Purpose**

- 1.1 To provide Local Pensions Board with an update on the work of the Fund to deliver a well governed scheme.

## **2.0 Risk Management**

- 2.1 The West Midlands Pension Fund is committed to developing and implementing a risk management and assurance framework which provides a systematic and consistent approach to the managements of risks which have the ability to threaten the delivery of the Fund's strategic objectives as outlined in its Service Plan. The Fund has an operational risk policy that defines a coherent and consistent approach to the operational risk management for both the WMPF and also as part of the framework involved with the assurance required with LGPS Central Ltd via the investment pool risk register. This provides a comprehensive Fund wide methodology that uses a common risk understanding throughout the Fund enabling a consistent approach by risk owners and controllers at all levels.
- 2.2 At the start of the 2019/20 Municipal Year the Fund had identified 54 operational risks which had the potential to hamper its service delivery. Throughout the year, quarterly updates were provided to Committee outlining risk movements highlighting where new risks had been identified. At the outset, the Fund had identified 12 red risks.
- 2.3 At the close of the 2019/20 year the number of risks remained the same at 54, however, movement across those risks has been notable with an increase of 8 red risks totalling 20 by year end. The main reason for the increase in red risks is related to external factors beyond the Fund's immediate control and include national policy or regulatory change, investment market volatility, third parties, and the risk to the Fund's business continuity in light of the Covid-19 pandemic, which hit in the last quarter of the year. A copy of the annual review is attached at Appendix A.
- 2.4 In moving forward, the Fund has identified which of those risks carry through to the current year, noting the continued potential for scheme changes with the developing outcomes of McCloud and the Cost Management Review which both apply to all Public Sector Pension Schemes. The impact of the current pandemic on Fund workloads and resourcing also rate high this quarter, together with the impact on investment markets, asset values and scheme funding.
- 2.5 As well as identifying and managing actual risks, the Fund also identifies potential areas of concern that are developing across the LGPS and pensions industry (those that are not yet full risks to the Fund but have the potential to be should they develop or not be mitigated). Attached at Appendix B is an overview of the Fund's strategic risk register for the quarter ending June together with those areas identified as areas of concern (emerging issues which may impact the Fund and its risk assessment in the future) together with the actions currently being taken by the Fund to monitor these developments.

### **3.0 Investment Risk and Assurance**

- 3.1 The Fund's strategic asset allocation is set out in the Investment Strategy Statement approved by Pensions Committee in March 2020. Invested assets were valued at close to £16bn as at the end of May 2020 with a diverse range of investments held to deliver the Fund's investment objectives. How the Fund manages and oversees the implemented investment arrangements is a critical part of the Fund's broader governance structure.
- 3.2 The Investment Risk and Assurance Framework forms part of the Fund's Internal Controls Framework and defines the commitment of West Midlands Pension Fund to an integrated approach to investment risk and assurance and was approved by Pensions Committee at its June meeting. The investment risk and assurance framework is part of the broader integrated risk management for the Fund. It focuses on the implementation of strategy for assets under management and is supplementary to the Fund's Investment Strategy Statement, aligning with the Fund's investment beliefs and fiduciary duty. A copy of the framework is attached at Appendix C

### **4.0 Compliance Monitoring**

#### **4.1 Finance – Contributions received**

Work is ongoing to enhance the efficiency of the process for reconciliation of monies received from the Fund's employers, utilising the statements submitted through the monthly submission process. Following completion of the 2019 actuarial valuation a revised rates and adjustments certificate has been put in place from April 2020, specifying contributions due from each employer for the three-year period 2020 to 2023.

Contributions are now being reconciled against the revised certificate and Fund Officers continue to engage with employers to ensure contributions are received in accordance with the rates due and paid by the due date, noting expectations set by the Pensions Regulator. Late payments are monitored with any non-compliance not addressed following Fund engagement, risking report to the Pension Regulator. With regards to regulatory timelines the number of employers submitting contributions late past the due date during the quarter was 2 employers with 4 active members paying £3,752.

#### **4.2 Investments trades**

The Fund continues to monitor late and failed trades from the custodian on a monthly basis.

##### Late Trades

Late trades relate to instructions on stocks which were not executed at the time requested but executed at a later period.

The number of late trades for the period January 2020 to March 2020 was 3 and the monthly breakdown is detailed below, none of these late trades resulted in detriment to the Fund.

<i>Month</i>	<i>Number</i>	<i>Fund %</i>	<i>Pension Peer Group %</i>
<b>January</b>	<b>0</b>	<b>0</b>	3.1%
<b>February</b>	<b>0</b>	<b>0</b>	1.8%
<b>March</b>	<b>3</b>	<b>1.8%</b>	4.2%
<b>Totals</b>	<b>3</b>		

#### Failed Trades

A failed trade is where the execution on stocks was not actioned.

The number of failed trades for the period January 2020 to March 2020 was 50 and the monthly breakdown is detailed below, none of these failed trades resulted in detriment to the Fund. The majority of failed trades relate to counterparty issues and in January 2020 the Fund had a large number of failed trades totalling 36 for the month, out of which 35 related to counterparty issues. Out of 50 Failed trades for the quarter 49 related to counterparty issues and 1 relating to a late instruction to the market.

<i>Month</i>	<i>Number</i>	<i>Fund %</i>	<i>Pension Peer Group %</i>
<b>January</b>	<b>36</b>	<b>19.6%</b>	3.2%
<b>February</b>	<b>6</b>	<b>14.0%</b>	14.0%
<b>March</b>	<b>8</b>	<b>5.9%</b>	4.9%
<b>Total</b>	<b>50</b>		

#### Failed Trades

<b>Reasons for Failure</b>	<b>Number</b>
Counter party issue	49
Late instruction/Matching in market	1
<b>Total</b>	<b>50</b>

#### 4.3 Fund manager assurance

The Fund has performed its annual assurance of external fund managers and the Pension Fund's custodian HSBC.

This assurance identifies the adequacy of internal controls of asset managers managing Fund assets. This assurance reviews internal reports documenting the control objectives and activities of the operating environment examined by independent auditors. For asset managers who do not comply with the requirement for a controls report, the Fund issues a Compliance Monitoring Form for submission covering a similar control environment to that of an internal controls report.

In relation to the recent emergence of the Covid-19 pandemic the internal control reports and the Fund's compliance monitoring form have been reviewed for responses relating to business continuity and BCP-testing programmes undertaken by the Fund's asset managers.

The Funds request was issued to 197 funds with Fund assets managed by them including the custodian.

#### Assurance Responses

<b><i>Number of Funds</i></b>	<b><i>Requests issued</i></b>	<b><i>No Response</i></b>	<b><i>Response Received</i></b>	<b><i>% Received</i></b>
WMPF / Custodian	197	2	195	<b>98.99%</b>
<b>Total</b>	<b>197</b>	<b>2</b>	<b>195</b>	<b>98.99%</b>

From the reports and bridging letters received from asset managers we can confirm that no significant material exceptions were identified, and all internal controls reports received were unqualified by external auditors. Further to the emergence of the Covid Pandemic the Fund also sought additional assurance from the larger asset managers confirming that operations had not been affected by the activation of remote working of their staff and this has been supplied.

#### 4.4 Business Continuity Plan (BCP)

At the start of the year, the Fund undertook a full review of its Business Continuity Plan (BCP). Close dialogue at all stages of the review was undertaken in consultation with the City of Wolverhampton Council (CWC) resilience team.

The Business Continuity Plan was presented to all Fund staff in a training session in early February. During this training session the new BCP was presented to staff covering the main strategic plan and individual service area plans. The Funds BCP had provision within the document covering a Pandemic, detailing the steps the Fund would take should such an event occur. In late March the BCP was activated as a result of the Covid-19 Pandemic with the plan being implemented by all staff ensuring a smooth transition to agile working and maintaining service delivery.

#### 4.5 Governance - Data Protection

This quarter the Fund is reporting 10 data breaches a reduction of 9 from the previous quarter. This quarter the Fund has undertaken a large scale mailing activity with the issuance of pensioner payslips and P60's, together with member newsletters, therefore the potential for an increase in data breaches was present, however the reduction in breaches is extremely positive and highlights the work of the Fund to develop data protection understanding and the work of the Fund's Data Champions as referred to in our previous reports.

#### 4.6 Governance – Freedom of Information (FOI) Requests

This quarter the Fund is received 11 FOI requests, all of which have been responded to in line with statutory timescales. It is usual for this period of year for the Fund to see an increase in these requests due to the close of financial year and investment reporting with the potential for increase being noted by the Fund's Senior Management Team during March as part of their Top Down risk identification.

#### 4.7 Governance Subject Access Requests (SARs)

This quarter the Fund has received 2 SARs both of which were completed within statutory timescales. More recently the Fund has received a number of third-party requests for information from claims companies seeking information where members have previously transferred out pension benefits to schemes no longer in existence. The Fund believes this activity to be connected to the recent Ombudsman case concerning Hampshire Pension Fund. Requests of this nature are being monitored and are highlighted on the Fund's risk register as a developing area of concern due to the lack of national guidance and policy as to how LGPS Funds respond to such claims.

### 5.0 Financial implications

5.1 Poor management of the Fund's financial affairs and assets can result in higher costs and detrimental investment returns. Effective monitoring of the management arrangements is required to ensure the Fund is well placed to ensure the delivery of payments and the investment strategy.

5.2 Failure by the Fund to meet statutory requirements of effective governance and administration could result in fines imposed by the Pensions Regulator (tPR).

### 6.0 Legal implications

6.1 Failure by the Fund to comply with legislation and/or statutory guidance can result in enforcement action and fine from both tPR and the Courts via judicial review.

### 7.0 Equalities implications

7.1 There are no equalities implications.

### 8.0 Environmental implications

8.1 There are no environmental implications.

### 9.0 Human resources implications

9.1 There are no human resources implications.

**10.0 Corporate landlord implications**

10.1 There are no corporate landlord implications.

**11.0 Schedule of background papers**

11.1 None.

**12.0 Schedule of appendices**

12.1 Appendix A: Risk Movement April 2019 – March 2020

12.2 Appendix B: Areas being monitored in the current environment

12.3 Appendix C: Investment Risk and Assurance Framework

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Appendix A		Risk Register - 4 Qtr Movement April 2019 - March 2020				
Risk ID	Risk Description	Jun-19	Sep-19	Dec-19	Mar-20	Movement over last 4 quarters
<b>Pooling</b>						
P1	Failures in Systems and Controls - LGPS Central	12	12	12	12	↔
P2	Transition Risk - Fund incurs additional cost (of central pool) because of pooling resulting in loss of value or ongoing costs	10	10	10	10	↔
P3	Transition timeline slips causing additional cost/resource on the fund	16	16	16	25	Y
P4	Investments not reflecting Funds investment strategy putting investment returns at risk	16	16	16	20	Y
P5	Custody of funds assets and failure to ensure the security and safe custody of funds assets leading to a financial loss	8	4	4	4	Y
P6	Resourcing - Staff transition to LGPSC leaving insufficient resources to manage legacy assets	15	15	15	15	↔
P7	Partner funds unable to agree on strategy or investment requirements leading to a stalling in transition of assets to the pool and not delivering cost savings	12	16	16	20	Y
P8	Pool and Partner Funds unable to agree on key issues	12	16	16	25	Y
P9	Cost savings fail to be delivered - higher regulatory and other costs, anticipated savings do not materialise	12	12	12	16	Y
<b>Investments</b>						
I1	Investment strategy is poorly implemented	12	12	12	12	↔
I2	Fund does not achieve investment returns in line with longer term strategic objectives to meet funding objectives	16	16	16	25	Y
I3	The Fund has an inappropriate asset allocation/investment strategy	12	12	12	12	↔
I4	Poor fund manager selection	9	9	9	12	Y
I5	Investment Managers/custodian internal control arrangements expose the Fund to loss of asset	8	8	8	8	↔
I6	The Funds SIAB currency exposure does not meet the stated funding objectives	12	12	12	12	↔
I7	Brexit	20	20	20	20	↔
I8	Climate Change investment strategy	16	16	16	16	↔
I9	Cost savings fail to be delivered - higher regulatory and other costs, anticipated savings do not materialise	12	12	12		
<b>Finance</b>						
F1	Payments are delayed	4	4	4	6	Y
F2	Inability to settle trades due to inadequate cash flow	6	6	6	12	Y
F3	The Fund is unable to comply with CIPFA cost disclosure guidance for the annual accounts	6	6	6	6	↔
F4	Budget overspend	6	6	6	6	↔
F5	Annual report and accounts late	5	5	5	5	↔
F6	Non-payment of / or receipt of monies due to the fund	15	15	15	15	↔
F7	CIPFA - Implementation of Annual Report Guidance	8	8	8	8	↔
<b>Governance</b>						
G1	The Fund fails to adhere to Data Protection legislation, including the preparation for GDPR	8	8	8	12	Y
G2	The Fund has poor data quality leading to an inability to service customers	12	12	12	12	↔
G4	Change in Committee and Pension Board structure due to natural movement of members and elections	12	12	12	12	↔
G5	The Fund cannot continue to operate and deliver its priority services following an IT or emergency	8	8	8	16	Y
G6	The Fund is unable to protect against fraudulent activity	8	12	12	12	Y
G7	Failure to recruit and retain people with the right experience, qualifications and skill sets	9	16	16	16	Y
G8	The Fund fails to operate adequate governance structures	12	12	12	16	Y
G9	Change in government policy/LGPS reforms	16	20	16	16	Y
G12	Fund resource and Key Man Risk	16	16	16	16	↔
G13	McCloud and Sargeant Court Cases and retrospective change in LGPS benefits	16	20	16	16	Y
<b>Operations</b>						
OP1	Pensions benefits are calculated with inaccurate or incomplete data (leading to under/overpayments)	12	12	12	12	↔
OP2	Payment of pensions are not made	10	10	10	10	↔
OP4	Failure to adhere to statutory regulatory requirements	20	20	20	20	↔
OP5	Failure of or poor transmission of electronic data and information exchange	12	12	12	12	↔
OP6	Payment of pensions increase is not made	8	8	8	8	↔
OP7	Poor quality and/or late deliveries/upgrades by the software provider leading to an inability to process member data creating backlogs and delays	12	12	16	16	Y
OP8	Lack of skills and/or knowledge to understand complex regulatory changes or understand their impact	12	12	12	12	↔
OP9	Failure in systems	10	10	10	15	Y
OP10	Cyber Security	12	12	12	12	↔
<b>Pension Services</b>						
PA1	Pensions Administration Strategy (PAS) not complied with by employers	16	16	16	16	↔
PA2	Liabilities need to be orphaned across the funds remaining employers in the event of an employer failing	12	12	12	12	↔
PA3	The fund does not complete the Guaranteed Minimum Pension (GMP) reconciliation	12	12	12	9	Y
PA4	Future liabilities increase	12	12	12	12	↔
PA5	Failure to adhere to statutory requirements /LGPS regulations	8	8	8	8	↔
PA6	Insufficient call handling of member and employer helplines / Breach of KPI / Spike in complaints	6	6	6	9	Y
PA7	Legal agreements are not sufficiently robust (e.g. Admissions, Supplementary agreements etc)	12	12	12	9	Y
PA8	Communications are inaccurate or Non Compliant with Regulators	8	8	8	8	↔
PA9	Insufficient or Inadequate engagement with members and employers	6	6	6	6	↔
PA10	Marketing and targeted member communications are inaccurate, insufficient / Timing of issue is poor	8	8	8	6	Y
PA11	Insufficient team resources	12	12	12	12	↔

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Appendix B

West Midlands Pension Fund Strategic Risk Register - June 2020

Risk Type	Area of Focus	Risk Description	Controls	Risk Movement this Quarter
Pandemic	Covid 19	Impact of current global health concerns across all types of risk (regulatory, operational, funding, reputation) and potentially impacting the ability of the Fund to deliver services	The Fund has a separate risk register monitoring the impact of the pandemic and the controls in place to mitigate	<b>NEW RISK</b>
Regulatory	Scheme benefits	Regulatory change impacting the administration of pension benefits leading to a requirement for increased administration processes, member communications and increased cost, both operational and to employers through increased contributions	The Fund keeps abreast of development, participating in consultation and calls for evidence. The Fund is responsive to requests for information which may inform regulatory change.	
	Governance and Oversight	Greater oversight from governing bodies (together with evolving guidance from MHCLG, SAB, CIPFA, the Pensions Regulator) with, as yet, unknown reporting requirements.	The Fund keeps abreast of development, participating in consultation and calls for evidence. The Fund is adequately resourced to support service delivery and respond to identified drivers for change.	
	Investment Pooling	Draft updated guidance expected from MHCLG - unclear whether this will place additional requirements for pooling or allow greater flexibility	The Fund keeps abreast of developments, participating in consultation and calls for evidence. The Fund is responsive to requests for information which may inform regulatory change and emerging guidance.	
Resources	People	The Fund is unable to recruit suitably qualified and experienced employees to support the delivery of services to our members. Particular areas of difficulty are all areas of highly specialist technical skills, e.g. investments/ actuarial/ finance/ pensions technical.	This risk is assessed each year as part of annual Service plan and budget review process, aiming to ensure the Fund is adequately resourced to support service delivery and respond to identified drivers for change.	
		The Fund is unable to retain employees, resulting in loss of key skills and knowledge, or faces growing financial pressure from the salaries required to retain specialist skills	This risk is assessed each year as part of annual Service plan and budget review process, aiming to ensure the Fund is adequately resourced to support service delivery and respond to identified drivers for change.	
		Increasing workloads put strain on key service areas due to changes in regulation and scheme rules. Increasing member and employer numbers increasing demand for services	This risk is assessed each year as part of annual Service plan and budget review process, aiming to ensure the Fund is adequately resourced to support service delivery and respond to identified drivers for change.	
	Budget	Greater demand on service areas together with greater oversight and reporting required creates budget pressures impacting the overall cost of delivering the functions of the Pension Fund	This risk is assessed each year as part of the budget setting process to ensure the Fund is adequately resourced to support service delivery; approved and monitored during the year by the Pensions Committee	
Operational	Increasing Workloads	High volume of service change and development co-occurring with transition to working from home arrangements, impacting productivity	Employee surveys being carried out to monitor and review potential sources of inefficiency, return to office planning being undertaken to facilitate phased return over time.	
	Failure by the Fund to deliver on its Service Plan objectives and priorities	impact on reputation of Fund in failing to deliver on promises made to customers together with potential impact of regulatory enforcement where external drivers are not managed.	The Fund monitors and reports on delivery against corporate priorities on a bi-annual basis to Committee and Board with activity monitored monthly through KPIs.	
	Cyber Security	The Fund retains a large of amount of personal data and financial information which could be impacted by a cyber attack	Oversight of Council's cyber security policy and system testing; Ensuring 3rd party providers have sufficient controls in place and insurance	
	Reliance on 3rd Party Providers	The Fund is heavily reliant on a small number of 3rd parties to be able to deliver a range of key services	This risk is assessed as part of the Fund's contract management framework, it is part of a regular and ongoing review of contractor delivery on services	
	Information and Data Quality	Employers fail to provide accurate data and financial information (in accordance with Pension Administration Strategy) in relation to scheme members leading to poor quality data, potential to impact on members benefits and accurate financial information	Monitoring and oversight of data and financial information supplied by employers; employer support and communication	
Funding and Investment	Funding Management	Poor oversight of funding level; increase in liabilities; overstating employer covenants; employers falling into financial difficulties	In addition to the annual review of the Fund's Funding Strategy, ongoing reviews of employer strength and monitoring of contributions to highlight potential difficulties	
	Investment Management	Volatility in investment markets leading to lower than required / expected returns impacting the Fund's ability to manage its funding level resulting in higher employer costs	The Fund sets strategic investment allocation benchmarks providing a diversified portfolio and actively manages investment risks by monitoring investment markets and performance. The Fund is also able to take a long term approach to investments and whilst may be impacted by short term volatility, longer term funding implications are not clear.	
	Responsible Investment	WMFP fails to develop or implement suitable RI policies leading to potentially decreased returns and increased external scrutiny; Fund fails to take into account potential risks from climate change impacting on the portfolio	Regular reviews of responsible investment strategy and activities are undertaken; development of climate change strategies and monitoring	
	Investment Pooling	The fund is unable to deliver investment strategy through pooling due to lack of appropriate products; cost savings fail to be delivered; divergence from strategic objectives	The Fund works with investment pooling Partner Funds and LGPS Central Limited to develop a product development protocol which is responsive to product need and gives due consideration to costs.	
		Investment Pooling fails to meet timelines set out in statutory guidance resulting in sanctions against the Fund from -Government	The Fund works collaboratively with investment pooling Partner Funds and LGPS Central Limited to deliver investment pooling and inputs into National debate and consultations on investment pooling	
Reputational	Customer Delivery	The Fund is unable to respond to the changing demands of our customers and/or is unable to flex its approach	Monthly monitoring of KPIs and workload demands from the Fund's Pension Services team enables reflection and early planning to identify peaks in demand, with follow-up customer satisfaction surveys	
	Information Management	The Fund fails to adequately protect members' data in line with Data Protection Requirements	The Fund has a data protection framework which includes the appointment of Data Champions across the Fund's service areas.	
		The Fund fails to hold data accuracy of member information leading to an inability to deliver annual benefit statements and/or incorrect benefit calculations.	The Fund has a data management strategy which seeks to identify and action data quality issues which may lead to the inability to produce accurate benefit statements. National developments of scheme specific data reporting are being tested by the Fund within its software system	
	Failure to act on issues	The Fund is faced with a multitude of issues that it needs to address in response to national and local change and could face poor publicity from failing to take action e.g. in relation to TPR guidelines, responsible investment activities, local/regional issues that affect local stakeholders etc.	The Fund keeps abreast of current issues that may arise; accountability of Senior Management to consider issues that might impact on the Fund's reputation	
Compliance and Assurance	The Fund is unable to provide assurance of its control framework or has an inadequate assurance of the controls in its processes.	The Fund undertakes quarterly compliance monitoring of key service areas. Annual Internal Audit reviews provide added assurance on identified high risk activities.		

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**West Midlands Pension Fund Risk Register - Areas of Concern June 2020**

Risk Type	Specific Concern	Risk Description	Level of Concern	Action taken
National	Covid 19	Impact of current global health concerns on the ability of the Fund to deliver services.	High	The Fund is undertaking a number of monitoring activities to assess and preempt potential impact on its service delivery. A separate risk register has been created to monitor impact.
Regulatory	McCloud and Sargent	The outcome of the court case has increased the risk of amendments to the calculation and administration of scheme benefits, introducing the potential for increased costs and contributions for employers. Both MHCLG and GAD have encouraged Fund's to make an allowance ahead of finalising the Actuarial Valuation 2019 but the remedy and how it will be applied within the LGPS may not be determined for some time, creating uncertainty and frustration for employers and scheme members, with an extending period over which changes may need to be backdated.	High	The Fund is engaging with national bodies providing requested information which may support the assessment of any potential remedy and how it may be implemented, which includes the potential impact on administration processes and Fund costs.
	Good Governance Review	The outcome of the Scheme Advisory Board Good Governance Review suggests a greater level of oversight and reporting for LGPS Funds. The West Midlands Pension Fund already operates a high level of governance, as confirmed by the external audit conducted in 2018, however the full outcome of these requirements is not yet known.	Low	The Fund has engaged with the Scheme Advisory Board and Hymans' (the advisors appointed to support the review), feeding into the review. We remain engaged as the review moves into the third phase. The Fund has already started to build out the initial requirements into its governance assurance framework
	The Pensions Regulator's Code of Practice	The tPR is currently in the early stages of conducting a formal review of all of its codes of practices with the aim of issuing a single code to apply to all pension schemes, it is unlikely there will be a public sector/LGPS Specific code.	Medium	The Fund has engaged with the Regulator in the early stages of the formulation of this new single code with officers attending round table discussions. The new code will be launched through consultation which the Fund will actively participate in.
	Regulatory Disclosure	Following the self report to the Pensions Regulator in September for the Fund's inability to produce 100% of Annual Benefit Statements for its members, the Fund continues to engage with the Regulator on its improvement in production and is currently awaiting an outcome from the Regulator.	Low	Outcome from engagement has resulted in no further action, however remains on watch list in preparation of 2020 ABS
	Statutory Guidance	A number of statutory guidance are on the horizon in relation to the governance of investment management by LGPS Funds, including new Stewardship Code, a focus on investment governance coming from the tPR and amendments arising from the new Pensions Schemes Bill.	High	The Fund is engaged with relevant bodies responsible for drafting statutory guidance and has a number of these policies in place which will be reviewed in consideration of new guidance when issued.
Operational	Available resource to respond to service change and increase in regulatory requirements	Due to potential scheme change, increasing governance requirements and evolving guidance leading to review of a wide range of Fund policy, together with an ongoing increase in demand for Fund services, resources will need to increase to meet the standards and level of services expected. The Fund will be reliant on technically skilled individuals able to undertake the relevant tasks and there is likely to be competition for resources.	High	Current environment has added to this concern
	Timely delivery of software and system support to achieve targets on service developments (DTEP)	Poor quality and/or late deliveries of system upgrades/developments leading to an inability to process member data creating backlog and/or delays.	Medium	The Fund is engaging with its software supplier through appropriate contract management and has escalated concerns within the organisation. Roadmap for resolution has been developed and will be reviewed.
	Information and Data Management	The inability of the Fund to report on statutory data quality and deliver accurate Benefit Information to all eligible members.	Medium	tPR has rated delivery of ABS a second priority however the Fund is aiming to maintain deadline delivery
Reputational	Transfer out claims	The Fund is seeing an increase in third party information requests (SARs) in light of the LGPS Hampshire case with one letter before action having been received. The potential for these cases to escalate is a concern with limited national response/positioning on how Funds should respond.	High	Advice is being sought from Eversheds on the letter before action with work underway by the Fund to review and amend processes around transfers out

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# INVESTMENT RISK AND ASSURANCE FRAMEWORK JUNE 2020

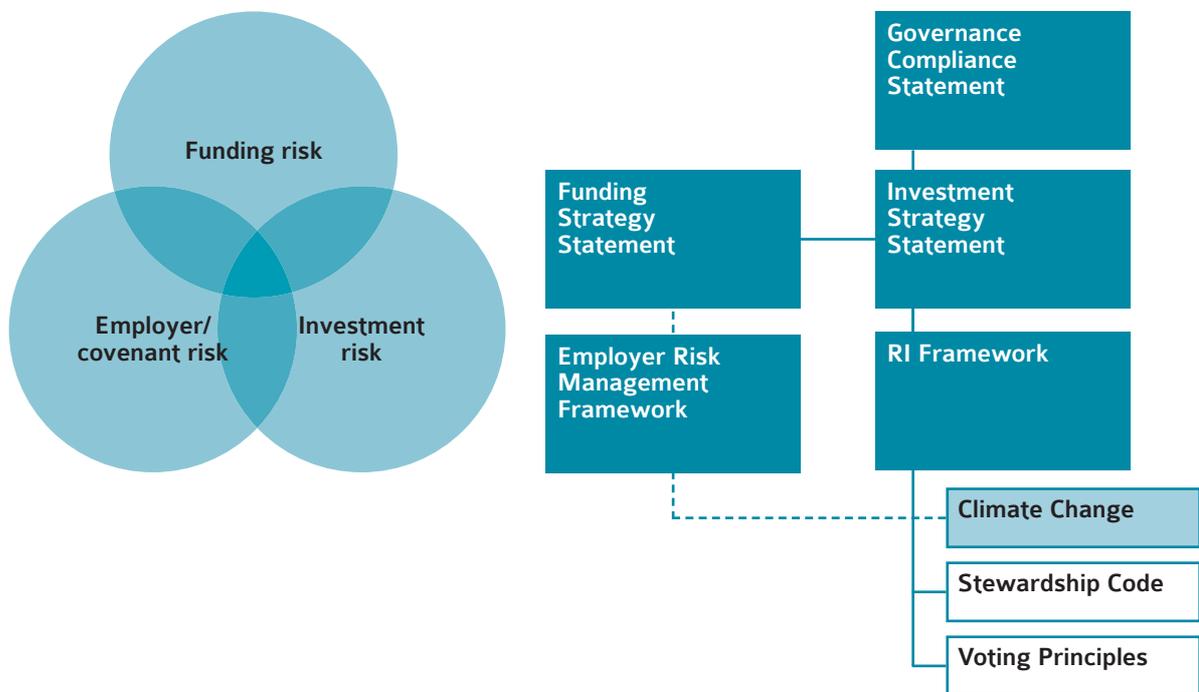


West Midlands Pension Fund

## 1 PURPOSE

This framework forms part of the Fund’s Internal Controls Framework and defines the commitment of West Midlands Pension Fund to an integrated approach to investment risk and assurance. Its purpose is to detail the approach that the Fund aims to follow in integrating investment risk and assurance in to its investment strategy and implementation. It informs and is supplementary to the Fund’s *Investment Strategy Statement*, aligning with the Fund’s investment beliefs and fiduciary duty. The investment risk and assurance framework forms part of the broader integrated risk management for the Fund.

### Integrated Risk Management



This framework has been developed in the context of relevant regulations, statutory guidance and the advice of the Law Commission.

The Pensions Committee is at all times responsible for the Fund’s investments, including setting strategic asset allocation, risk management and assurance and responsible investment. Responsibility for oversight and implementation of the Fund’s integrated risk management framework sits with the Director of Pensions, supported by the Investment Advisory Panel and Internal Investment Committee.

This framework applies to all members of the Pensions Committee and the Fund officers. The Pensions Committee review the framework at a minimum annually, or at such time as the Fund sees fit to revise its risk management and policies and procedures.

### Investment Governance Framework

The City of Wolverhampton Council is the administering authority for the Fund, part of the Local Government Pension Scheme, whose role is defined under the regulations. The City of Wolverhampton Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Director of Pensions has direct responsibility for the implementing funding and investment strategy; budget and service delivery; risk management and compliance through a team of professionally qualified staff and the investment pool LGPS Central. The Investment Advisory Panel advises the Director of Pensions on investment issues relating to the Fund. Independent assurance on the Fund's risk management, governance and internal controls processes is provided to the Pensions Committee through the Council's Internal Audit Function and External Audit.

The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's investments and comprises representatives from the seven district councils and 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 section 3 and within the Fund's *Investment Strategy Statement*.

This framework covers the management of strategic, operational and investment risks, providing assurance to those charged with governance of the Pension Fund and wider stakeholders in the Fund. It supports the implementation of the Fund's *Investment Strategy Statement*.

## 2 PURPOSE OF THE INVESTMENT RISK & ASSURANCE FRAMEWORK

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; and
- to set out the Fund’s strategic investment asset benchmark (SIAB) and ranges allowed to provide flexibility.

The purpose of the *Investment Risk & Assurance Framework* is to set out how the Fund will manage and oversee the delivery and implementation of the Fund’s *Investment Strategy Statement (ISS)*. Specifically:

- records how the Fund enables and oversees delivery of the *Investment Strategy Statement (ISS)*;
- provides information and assurance to the Pensions Committee on delegated implementation;
- seeks to identify, measure, control and report on any risks that may undermine the delivery of the Fund’s objectives;
- provide assurance of the Fund’s management of risks; and
- outlines the Fund’s oversight of investment managers including its investment pooling arrangements.

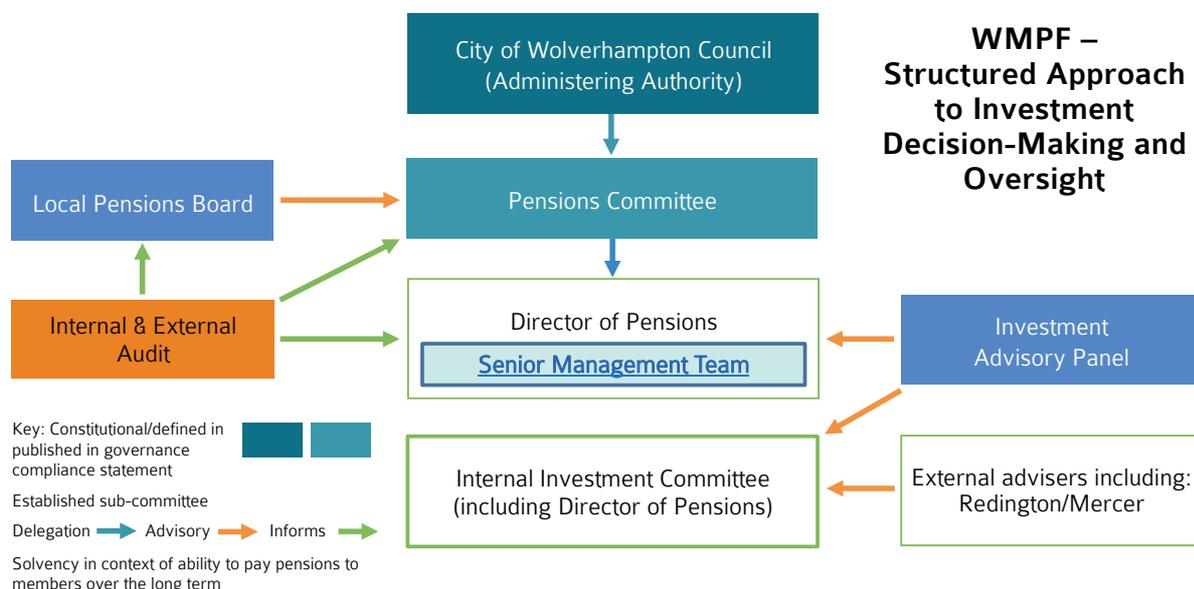
The key elements supporting implementation are set out below:



### 3 INVESTMENT GOVERNANCE

The Fund has an established governance structure for investment decision making and implementation of those decisions. This aids in providing assurance to stakeholders over how decisions are made and implemented, where delegated to the Director of Pensions and supporting senior officers.

The diagram below sets out the investment governance arrangements for decision-making and implementation:



#### Roles and Responsibilities

The roles and responsibilities of the different parties within the investment governance framework are set out in more detail below:

<b>Pensions Committee</b>	<ul style="list-style-type: none"> <li>Effect decisions on the management and administration of the Fund including investment decisions, annual approval of the Investment Strategy Statement</li> </ul>
<b>Pensions Board</b>	<ul style="list-style-type: none"> <li>Review the process of effective decision-making</li> </ul>
<b>Director of Pensions</b>	<ul style="list-style-type: none"> <li>Delegation for day to day management of Pension Fund including investments and implementation of investment strategy</li> </ul>
<b>Investment Advisory Panel</b>	<ul style="list-style-type: none"> <li>Supports the Director of Pensions and Internal Investment Committee with strategic advice, challenge, market commentary and oversight of portfolio management</li> </ul>
<b>Internal Investment Committee</b>	<ul style="list-style-type: none"> <li>Day to day asset allocation and investment strategy decision-making and implementation of investment strategy, internal challenge</li> </ul>
<b>Investment Advisors</b>	<ul style="list-style-type: none"> <li>Provision of advice on markets, investment strategy, risk management and individual investment ideas</li> </ul>
<b>Internal &amp; External Audit</b>	<ul style="list-style-type: none"> <li>Review process, decisions and implementation and to provide assurance to those charged with governance of the Pension Fund</li> </ul>

## 4 INVESTMENT MANAGEMENT OVERSIGHT AND MONITORING

### Monitoring Process

The Fund's approach to implanting investment management arrangements and then undertaking the ongoing oversight and monitoring can be set out diagrammatically as shown below as a series of steps. These are applied consistently across the portfolio and across a range of approaches used by the Fund to implement investment strategy.



### Setting Mandate Parameters

Prior to making arrangements for the investment of assets the Fund will design a mandate or assess the suitability of a manager's mandate structure to meet the Fund's strategic objectives in the asset class in which it is looking to invest. Key features in setting a mandate involve:

- setting an appropriate benchmark against which to measure performance;
- setting targets for performance, for example with active management these will be a target over the benchmark, tracking error for passive, taking into consideration feedback from providers to ensure that realistic targets are set for performance;

- allowable investments within the mandate, which could include the use of derivatives where appropriate;
- risk parameters to be established, what are the ranges for the investments within the mandate, for example maximum percentages, geographical weightings, credit ratings, diversion from benchmark;
- responsible investment, this incorporates how the Fund Responsible Investment beliefs will be integrated, how will voting be carried, ensuring good alignment including with the Fund's climate change objectives and beliefs;
- costs and fees – how will these be assessed and reported noting the Fund requires all managers to be, signatories of the LGPS cost transparency code and align with the developing wider industry Cost Transparency Initiative;
- reporting covering frequency, nature of reporting and information to be included; and
- review of mandate and objectives to be assessed within the Fund's governance process.

### **Appointment Process and Suitability for Mandate**

The Fund will assess the available routes to investment, which could follow different processes depending on the nature of the investment, availability of providers and cost of implementing. Key factors in the appointments process cover:

- consideration of return target and risk premia looking to access to generate;
- identification of source and opportunity set most likely to generate exposure and return for acceptable risk;
- review of options to access, which may require either an active or passive management arrangement and/or access through an investment fund, direct or co-invest approach, depending on the asset class and opportunity;
- consideration of investment partnerships and providers who can deliver (including the LGPS Central investment pool and noting there may be instances where this requires formal procurement);
- assessment of criteria and alignment with Fund requirements from both mandate perspective and standard due diligence criteria – People, Process, Philosophy and Price; and
- consideration of costs (including transition) and "fit" with investment policy objectives, including Responsible Investment.

### **Measuring Performance**

Following appointment of providers to manage the Fund's assets, the Fund will monitor performance of the provider and investment management arrangement taking into account:

- Is the provider meeting benchmarks and or targets that have been set for performance and over what time period?
- Quarterly review of performance against longer term benchmarks/targets.
- How are the investments being managed, are they within the Fund's risk tolerance; is there appropriate risk management arrangements in place and are they effective?

- Service delivery – how responsive is the provider in dealing with queries or issues, is the Fund kept informed of any developments that could impact on the investment or in the Fund’s assessment of ongoing suitability and “fit”.

**Ongoing Assessment**

The Fund will regularly monitor and make ongoing assessment of external providers (including LGPS Central Ltd) for investment management performance and services, noting the long-term nature of arrangements the Fund seeks to establish and the cost of change



### **Oversight Across Management Arrangements**

How the Fund conducts its ongoing oversight and monitoring will vary depending on the nature of the assets and how they are being managed. The Fund has set out a number of categories into which assets might fall for the purposes of oversight and monitoring, the points set out below are not meant to be an exhaustive list, but provide an overview of how the Fund undertakes its assessment and determine whether the Fund's objectives are being met:

#### ***LGPS Central Ltd – Directly Managed Assets i.e. sub-funds (ACS or other)***

- Is sub-fund performing in line with benchmark and/or target?
- Ability of the Fund to gain good insight to the drivers of performance and oversight of underlying managers through performance reporting.
- Changes to management arrangements (including the identification and action on "red flags") with either external managers or within LGPS Central which could impact on investment management and performance.
- Approach to risk management, including the identification and reporting of risk factors (and appropriate response) where these could impact on future performance.

#### ***Discretionary and Advisory Mandates***

- Is the Fund receiving information to support its decision making and/or oversight of the relevant areas of the portfolio?
- Ability of the Fund to access due diligence and/or pipeline on potential new investments as well as existing investments.
- Supporting with the development of the Fund's investment strategy and approach to accessing opportunities within the relevant individual asset classes covered by the mandate.

#### ***External 3rd Party Managers and Direct Investments***

- Direct monitoring and oversight of individual managers to assess delivery against their benchmarks and relevant targets.
- Individual manager/direct investment approach to risk management, including the identification and reporting of risk factors (and appropriate response) where these could impact on future performance.
- Review of ongoing suitability of strategy, structuring and management and how this might impact on the level of risk and return.
- What level of engagement are managers undertaking with underlying companies and in relation to the Fund's engagement priorities, are they addressing environmental, social and governance considerations, both in terms of risk and opportunity?

**Other Providers**

The Fund uses other providers to support in the management of its assets which include the Fund’s custodian and transition managers when transferring assets. Management and oversight of these arrangements are key to ensuring the safe custody and transition of the Fund’s assets. With respect to the custody arrangements, the Fund monitors service levels and conducts regular review meetings to cover ongoing operations as well as undertaking a service level review at least annually. The custodian is required to provide reporting on any breaches, and these are reported to Pensions Committee on a quarterly basis.

There can be significant risks when the Fund transitions assets and the Fund will typically engage a specialist transition manager to undertake the movement of assets between managers taking into account the costs of that transition and the security of the assets during transition and transition managers are appointed to reflect their ability to meet the Fund’s requirements. The Fund assesses any pre-transition analysis provided and remain engaged throughout the process and in review the detailed post transition analysis. The Fund’s internal governance structure maintains oversight and monitoring of transitions.

**Compliance Monitoring**

The Fund undertakes regular compliance monitoring both internally and externally, which encompass a range of measures to ensure compliance with the regulations, internal governance arrangements and best practice. This includes assessing on an annual basis the internal control’s reports of all its investment managers and third party suppliers of investment-related services. Internal compliance monitoring covers a range of items to assess whether the investment team is meeting the governance arrangements that have been set. These are reported to the Internal Investment Committee and where applicable an overview of compliance is also provided to the broader Senior Management Team and Pensions Committee. The table below shows the process of compliance monitoring.



## 5 PENSIONS COMMITTEE OVERSIGHT & MONITORING

The Pensions Committee is an integral part of the governance framework for the investment risk and assurance framework. The Committee receives quarterly reporting to assist it with its oversight function (noting that the IAP undertakes a regular review of key items in advance of Committee) including:

- **Market Background and Outlook** – to highlight areas which could impact portfolio positioning vs Strategic Investment Allocation Benchmark (SIAB) and return outcomes over short to medium term.
- **Performance** – to consider whether the portfolio and individual asset groups are delivering the required risk and return expected.
- **Investment Strategy** – to review and consider investment strategy and broader implementation, setting the risk/return profile for SIAB highlighting areas under review and implementation of strategy.
- **LGPS Central Ltd** – assessment of investment pooling from both a client and shareholder perspective as well as broader implementation of investment pooling.
- **Responsible Investment** – to highlight engagement and voting taking place and in particular in line with the Fund's *Responsible Investment Framework* and related RI policy documents.
- **Investment Policies** – to consider, review and agree amendments to investment policy documents including the Fund's *Investment Strategy Statement (ISS)* and to monitor adherence to those policies.
- **Compliance Monitoring** – to provide assurance over the management and monitoring of the Fund's assets and to highlight areas of concern and any breaches incurred.

In addition to the quarterly reporting, the Committee receives an annual report on the work of the Investment Advisory Panel to help provide assurance on the internal decision making and monitoring of the Fund's investments.

The Pensions Committee reviews framework and policy documents annually or at such time as the Fund sees fit to revise its *Investment Risk and Assurance Framework*. This Framework was approved by Pensions Committee on 17 June 2020.

West Midlands Pension Fund  
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WV1 1XP

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report title</b>	Business Performance and Service Plan Update	
<b>Originating service</b>	Pensions Services	
<b>Accountable employee</b>	Rachel Howe	Head of Governance
	Tel	01902 55 2091
	Email	<a href="mailto:Rachel.Howe@wolverhampton.gov.uk">Rachel.Howe@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
	Tel	01902 55 1715
	Email	<a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Board is asked to note:

1. The performance of the Fund in working to deliver its corporate priorities as outlined in the 2019 – 2024 Service Plan.
2. The Fund's KPIs for year end performance together with a year on year overview.

## **1.0 Purpose**

- 1.1 To provide Board with an overview of how the Fund delivered the priorities set out in the 2019 - 2024 Service Plan.
- 1.2 To provide an update on the Fund's performance as measured by its Key Performance Indicators.

## **2.0 Service Plan 2019 – 2024**

2.1 Throughout 2018/2019 the Fund saw a number of significant changes impacting the management and administration of the LGPS on a national level, together with the first year of implementation for investment pooling. In responding to change and the evolving environment, the Fund developed its 2019 Service Plan to facilitate its response to change and undertook a number of service development projects which focussed on developing the internal capabilities of the Fund, as well as shaping national policy.

2.2 In formulating the Service Plan for 2020, it was important for the Fund to review how it worked to respond to those changes, shaping services and changing practice, delivering on the priorities set out in the 2019 Plan.

### **2.3 Customer Engagement and Communication**

Throughout 2019 the Fund focussed on enhancing its digital platform for engaging with members, to compliment the face-to face delivery which is highly valued by our customer based. This focus acknowledges the diversity of our customer base and associated demand, extending the suite of communication and engagement available, whilst providing instant access to information. Examples of this include initiatives such as E-books, webinars and online videos providing useful hints and tips as well as guidance on LGPS benefits, online employer coaching sessions, regular reviews and improvements to dedicated telephony services, and expanding on the level of information and services available through the Fund's website.

### **2.4 Governance and Risk**

Throughout 2019/2020 the Fund developed its governance and assurance framework following the recruitment and appointment of its Regulatory Governance Manager. The developing three lines of defence framework has linked assurance to risk and service priorities, ensuring effective oversight of activities which may threaten the Fund's compliance with statutory regulation and governance.

Building on the already compliant data protection framework, implemented under GDPR, the Fund has strengthened reporting and ownership of data through the appointment of service specific data champions responsible for the protection of data and oversight of its use in individual team processes.

Development in this area will continue throughout 2020/2021 as the Fund seeks to embed three lines of defence across all levels of reporting, from Committee to senior managers and through the policy review framework, ensuring the Fund is able to present its compliance and evidence through working practice the implementation of those policies and strategies.

## 2.5 **Data Management and Reporting**

Highlighted within the Data Management Report, the Fund has seen the growing success of initiatives such as monthly submissions, with the continued reduction in errors on first point of load from employers, together with the success of data cleansing initiatives such as mortality and deferred member screening. These actions contributed to the delivery of the Fund's Data Management Strategy and improved overall delivery of annual benefit statements by year end.

## 2.6 **Regulatory and System Change**

Through 2019/2020 the Fund has enhanced its UPM system upgrade management process to enable improved communication across all service areas effecting efficient management of the process. In addition, work has been undertaken to improve the oversight of the activity undertaken by CWC's ICTS to protect the Fund's data and systems from cyber-attacks. Work continues to build on the Fund's management of change across the Fund with further steps in place to improve transparency and communication.

The continued development and delivery of the Fund's Digital Transformation Programme supports the delivery of the Customer Engagement Strategy enabling more self-service functionality on the online Pensions Portal and website, including the ability of members to contact the Fund through direct messaging, as well as enabling the running of retirement quotes for deferred members.

## 2.7 **People Management**

A key priority of the Fund's 2019 Service Plan was to develop our people and enhance the Fund's resilience to respond to change securing future succession. Over the course of 2019/2020 the Fund undertook a number of recruitments to key posts and were pleased to see the success of internal appointments and promotion facilitated by the Fund's People Development Framework. The re-launch of the Graduate and Trainee programme saw a number of successful recruitments and qualifications gained from students and university leavers, with some going on to secure longer term roles with the Fund.

The success of the Fund's People Development has bared out in the last quarter of the year with the ability to flex resource across key service areas in response to the COVID-19 pandemic. The Fund continues to review and evolve roles and resources to support delivery of the service plan, with targeted recruitment plans developing for 2020/2021.

## 2.8 Funding Strategy

In line with the LGPS Regulations, Administering Authorities are required to ensure contributions are set at a level to achieve Fund solvency and long-term cost efficiency. As such, the Fund reviewed the Funding Strategy Statement (FSS) as part of the 2019 actuarial valuation having regard to relevant guidance and the Investment Strategy Statement (ISS).

As part of this process the Fund undertook extensive engagement across the employer base both on the actuarial valuation itself and including consultation on the FSS. The FSS represents a single strategy for the Fund as a whole, adjusted for employer groups/categories based on the advice of the Fund actuary, noting that the former WMITA PF employers are also covered under separate schedules within this FSS following the merger into the Main Fund effective 1 April 2019.

As well as setting out the Fund's overall strategy towards funding, the FSS also covers management of deficits/surplus and several measures targeted at mitigating risk in the context of the Fund's Integrated Risk Management Framework.

In December 2018, the Court of Appeal ruled that transitional provisions in the pension schemes for firefighters and the judiciary resulted in unlawful age discrimination. Whilst the remedy for the LGPS is yet to be agreed and the impact on individual member benefits and employer costs are unknown at this stage, explicit allowance has been incorporated within the FSS in considering funding levels and contribution requirements following the 2019 valuation.

## 2.9 Financial Management and Cost Transparency

Focus during the year was on strengthening the contributions monitoring process and enhancing engagement with employers, this has led to improvements in the speed of reporting on accounting disclosures for employers, as well as improved management of information.

The Fund's leading work on the cost transparency initiative over recent years to capture full investment management costs is being increasingly implemented across the fund management industry, following the cost transparency initiative trial which the Fund took place in last year. The benefits have been flowing through to this year's exercise to capture investment costs as more managers complete the templates in a timely fashion.

## 2.10 Investment Strategy

Alongside the Triennial actuarial valuation in 2019/20, the Fund undertook a comprehensive review of its strategic asset allocation, reflecting on the improved funding position and recognising the increasing maturity of the Fund. The Fund worked with its external investment and risk advisers to review the investment strategy and to update the strategic asset allocation. This has been reflected in the updated Investment Strategy Statement which was approved by Pensions Committee at the end of March.

In considering 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.

Key strategic asset allocation changes contained within the ISS for the main fund were, 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.

### **3.0 Key Performance Indicators**

- 3.1 Attached at Appendix A are the Fund's Key Performance Indicators at year end, noting the achievement of all KPIs on a year average. For those KPIs showing slight movement from the previous reported quarter (to January 2020), can be attributable to increased work volumes over the three months leading to year end when the Fund usually receives a spike in workloads and processes started. The Fund's ongoing management of data quality and production of annual benefits statements is highlighted in the Data Management Report.
- 3.2 Attached at Appendix B is an overview year-on-year of Fund performance in achieving KPI. The overall improvement is notable in the context of increasing processing volumes, the changing regulatory landscape of the LGPS with increased requirements on reporting, changing member profiles and growing member and employer numbers, with ongoing challenges from the complexity in scheme rules.
- 3.3 The target date for completion of IDRPs cases, as set out in the tPR Code of Practice is two months unless the issue becomes complex or requires additional information to enable a decision to be made. While the Fund has not achieved the 2-month target for completion of IDRPs cases (a total of 6 cases out of 10), the individuals concerned have been kept informed of the progress of their case and in line with the Regulator's Code of Practice have been informed of the reasons for delay, noting the anticipated timescale for completion. These cases have required additional information and support from third parties to complete investigation and included the need for additional medical reports to support an application for ill health retirement. The Fund is keen to ensure all such matters are resolved in the most efficient way for members with the main reason for delay being connected to the need for additional information to assist the Fund's decision.
- 3.4 The Finance KPIs in both appendices will be updated and reported to September committee, once the finalised accounts have been confirmed and signed off.

#### **4.0 Financial implications**

4.1 The report contains no direct financial implications.

#### **5.0 Legal implications**

5.1 This report contains no direct legal implications.

#### **6.0 Equalities implications**

6.1 This report contains no direct equalities implications.

#### **7.0 Environmental implications**

7.1 This report contains 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 West Midlands Pension Fund Service Plan 2019 – 2024  
<https://wolverhampton.moderngov.co.uk/documents/s106290/Appendix%20B-%20Service%20Plan%202019%20-%202024%201.pdf>

10.2 West Midlands Pension Fund Service Plan 2020 – 2025  
<https://www.wmpfonline.com/CHttpHandler.ashx?id=12474&p=0>

#### **11.0 Schedule of Appendices**

11.1 Appendix A: Key Performance Indicators Quarter 4

11.2 Appendix B: Key performance indicators year on year 2018 – 2020

Corporate Priority	Frequency	Description	Target	Lead Officer	End of Quarter 4 Performance	Trend
Customer Engagement and Communication	<b>REFUNDS</b>					
	M	Notify member of Refund within 10 days of receiving required information	90%	Head of Operations	94.27%	↑
		Refund payments processed within 5 days of receiving required information	90%		99.69%	↑
	<b>RETIREMENTS</b>					
	M	Notification of Estimated Benefits within 15 days of retirement date	90%	Head of Operations	90.20%	↓
		Notification of the actual benefits within 5 days of receiving member option form	90%		98.39%	↓
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		96.81%	↑
	<b>DEFERRED RETIREMENTS</b>					
	M	Issue quote letter within 30 days of the members eligible payment date or receipt of request from member	90%	Head of Operations	91.63%	↓
		Notification of the actual benefits within 5 days of receiving member option form	90%		98.00%	↓
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		96.06%	→
	<b>TRANSFERS IN</b>					
	M	Transfer in quotations processed within 10 days of receiving all the required information	90%	Head of Operations	100.00%	→
		Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		100.00%	→
	<b>TRANSFERS OUT</b>					
	M	Transfer out quotations processed within 20 days of receiving required information	90%	Head of Operations	99.70%	↑
		Transfer out payments processed within 20 days of receiving required information	90%		98.61%	↑
	<b>DEATHS</b>					
	M	Acknowledgement of a death within 5 days of receiving the notification.	90%	Head of Operations	95.25%	↓
		Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		99.36%	↓
Payment of death lump sum will be made within 10 days of receipt of all the required information.		90%	100.00%		→	
<b>JOINERS</b>						
M	Membership record to be created within one month of receiving information from employer	95%	Head of Governance	100.00%	→	
<b>EMPLOYER AND MEMBER SERVICE - CALLS</b>						
M	Calls received to the customer helpline to be answered.	85%	Head of Pensions	78.15%	↓	
M	Calls received to the employer helpline to be answered.	85%	Head of Pensions	98.86%	↑	
Customer Engagement and Communication	<b>CUSTOMER SATISFACTION/SURVEY</b>					
	M	Customer satisfaction	90%	Head of Pensions	100%	↑
	Q	Web Portal Registrations	Target 90000	Head of Pensions	93946	↑
	<b>AVAILABILITY OF ONLINE SERVICES FOR MEMBERS</b>					
	M	Pensions Portal, Employer Portal and the external website to be available for 95% of total working hours.	95%	Head of Operations	98.68%	↑
	<b>COMPLAINTS MONITORING - MEMBERS</b>					
	M	All complaints to be responded to within 15 working days of receipt	15 days	Head of Pensions	97.14%	↓
	M	No of complaints to be less than 1% of total membership	<1%	Head of Pensions	35	→
<b>COMPLAINTS MONITORING - EMPLOYERS</b>						
M	All complaints to be responded to within 15 working days of receipt	15 days	Head of Pensions	94.74%	↓	
M	No of complaints to be less than 1% of total employer membership.	<1%	Head of Pensions	19	↑	
Governance and Risk	<b>EFFECTIVE DECISION MAKING</b>					
	6M	Training hours of Committee and Pension Board		Head of Governance	100.00%	→
	6M	Attendance rate of committee and pension board		Head of Governance	79.31%	↑
	<b>INFORMATION GOVERNANCE</b>					
Q	Statutory response timeliness	100%	Head of Governance	100.00%	↑	
Strategic Asset Allocation and Performance	<b>INVESTMENT RETURNS/OVERALL FUND PERFORMANCE</b>					
	Q	Main Fund - Returns to be 0.5% above the benchmark (3 Yr. Rolling)	+/- 0.5%	Assistant Director Investments and Finance	-1.08%	↑
	Q	ITA Fund - Returns to match the benchmark (3 Yr. Rolling)	+ 0	Assistant Director Investments and Finance	-0.89%	↓
Data Management	<b>DATA QUALITY</b>					
	M	Common data Main Fund	99%>	Head of Governance	96.78%	↑
		Scheme specific data Main Fund	95%>		LGPS Scheme specific requirements under national development	LGPS Scheme specific requirements under national development
	<b>DATA IMPROVEMENT</b>					
A	ABS produced for 100% of active member records	100%	Head of Operations	Available Sept 2020		
	DBS produced for 100% of deferred member records	100%		Available Sept 2020		

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Corporate Priority	Frequency	Description	Target	Lead Officer	2018	2019	Trend	2020	Trend		
Customer Engagement and Communication	<b>REFUNDS</b>										
	M	Notify member of Refund within 10 days of receiving required information	90%	AR	N/A	77.8%	N/A	94.95%	↑		
		Refund payments processed within 5 days of receiving required information	90%		N/A	97.8%	N/A	99.66%	↑		
	<b>RETIREMENTS</b>										
	M	Notification of Estimated Benefits within 15 days of retirement date	90%	AR	55.0%	63.7%	↑	89.40%	↑		
		Notification of the actual benefits within 5 days of receiving member option form	90%		99.3%	99.1%	↓	96.66%	↓		
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		97.8%	91.7%	↓	97.40%	↑		
	<b>DEFERRED RETIREMENTS</b>										
	M	Issue quote letter within 30 days of the members eligible payment date or receipt of request from member	90%	AR	90.5%	55.6%	↓	94.22%	↑		
		Notification of the actual benefits within 5 days of receiving member option form	90%		96.4%	97.0%	↑	98.13%	↑		
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		94.6%	94.4%	↓	96.39%	↑		
	<b>TRANSFERS IN</b>										
	M	Transfer in quotations processed within 10 days of receiving all the required information	90%	AR	82.6%	97.0%	↑	97.88%	↑		
		Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		93.1%	96.5%	↑	99.23%	↑		
	<b>TRANSFERS OUT</b>										
	M	Transfer out quotations processed within 20 days of receiving required information	90%	AR	89.2%	94.6%	↑	99.53%	↑		
		Transfer out payments processed within 20 days of receiving required information	90%		85.9%	90.0%	↑	98.83%	↑		
	<b>DEATHS</b>										
	M	Acknowledgement of a death within 5 days of receiving the notification.	90%	AR	96.1%	97.1%	↑	94.44%	↓		
		Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		91.6%	93.2%	↑	99.41%	↑		
		Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		99.8%	100.0%	↑	100.00%	→		
	<b>JOINERS</b>										
	M	Membership record to be created within one month of receiving information from employer	95%	RH	N/A	N/A	N/A	100.00%	N/A		
	<b>EMPLOYER AND MEMBER SERVICE - CALLS</b>										
	M	Calls received to the customer helpline to be answered.	85%	ST	88.6%	81.7%	↓	82.12%	↑		
	M	Calls received to the employer helpline to be answered.	85%	ST	94.6%	93.3%	↓	97.82%	↑		
	<b>CUSTOMER SATISFACTION/SURVEY</b>										
	Q	Customer satisfaction	90%	ST	100.0%	100.0%	→	100.00%	→		
	Q	Web Portal Registrations	Target 90000	ST	N/A	78570	N/A	93946	↑		
	<b>AVAILABILITY OF ONLINE SERVICES FOR MEMBERS</b>										
	M	Pensions Portal to be available 95% of the time (based on working hours as monitored)	95%	AR	99.6%	99.0%	↓	99.09%	→		
	M	Number of occurrences web portal is unavailable to reduce year on year			N/A	3.4	N/A	27	↑		
	<b>IDRP MONITORING</b>										
	A	All IDRP cases completed within 2 months	60 days	AR	61.7 days	52.9 days	↓	40.00%	↓		
	<b>COMPLAINTS MONITORING - MEMBERS</b>										
	M	All complaints to be responded to within 15 working days of receipt	15 days	ST	97.7%	99.6%	↑	97.04%	↓		
	Strategic Asset Allocation and Performance	<b>INVESTMENT RETURNS/OVERALL FUND PERFORMANCE</b>									
		Q	Main Fund - Returns to be 0.5% above the benchmark (3 Yr. Rolling)	+/-0.5%	JD	0.54%	-0.26%	↓	-0.80%	↓	
		ITA Fund - Returns to match the benchmark (3 Yr. Rolling)	+0	JD	-0.56%	-0.42%	↓	-2.70%	↓		
	Data Management and Reporting	<b>DATA QUALITY</b>									
		M	Common data Main Fund	99%>	RH	99.4%	96.5%	↓	96.78%	↑	
			Common data ITA	99%>			98.0%	↓	98.39%	↑	
		<b>DATA IMPROVEMENT</b>									
	A	ABS produced for 100% of active member records	100%	AR	79.0%	85.0%	↑	95.00%	↑		
		DBS produced for 100% of deferred member records	100%		98.6%	99.7%	↑	91.00%	↑		
Financial management and cost transparency	<b>CONTRIBUTIONS RECEIVED</b>										
	M	Main Fund - Contributions received from employers and validated by accountancy statement	98%	DS	97.6%	98.4%	↑	N/A			
		ITA Fund - Contributions received from employers and validated by accountancy statement	98%		100.0%	94.2%	↓	N/A			
	<b>COST PER MEMBER</b>										
	Q	Administration and governance cost per member to be within budget	£ 31.68	DS	£20.37	£24.07	↑	N/A			
<b>QUARTERLY ACCOUNTS</b>											
Q	Days taken to prepare quarterly accounts (Main Fund)	30 days	DS	17.0 days	30.0 days	↑	N/A				
Q	Days taken to prepare quarterly accounts (ITA)	30 days	DS				N/A				

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report title</b>	Annual Report and Accounts 2019/2020	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Jill Davys Tel Email	Assistant Director, Investments and Finance 01902 55 5055 <a href="mailto:jill.davys@wolverhampton.gov.uk">jill.davys@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 <a href="mailto:rachel.brothwood@wolverhampton.gov.uk">rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

**The Board is recommended to note:**

1. The draft Statement of Accounts for West Midlands Pension Fund (incorporating the merger with the West Midlands ITA Pension Fund (WMITA Pension Fund) have been prepared and certified by the Section 151 Officer as required by regulations.
2. Subject to audit by the Fund's external auditors, Grant Thornton, the final version and audit opinion, together with the draft Annual Report will be reported to the Pensions Committee in September 2020 and the Local Pensions Board in October.
3. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 have extended the statutory accounting deadlines for completion of draft and final Statement of Accounts.

## **1.0 Purpose**

- 1.1 The purpose of this report is to update the Board on the preparation, approval and audit of the Statement of Accounts and the Annual Report for the year ending 31 March 2020 and the latter's publication on the Fund's website.

## **2.0 Background**

- 2.1 Local Government Pension Scheme (LGPS) funds are ordinarily required by law to produce a Statement of Accounts by 31 May each year. These must be subject to external audit and published no later than 31 July.

However, considering recent events due to Covid 19, timescales for closing and auditing of accounts for the current year have been extended. With effect from 30 April 2020 and applicable to the Statement of Accounts for the year ended 31 March 2020 only, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 extend the above statutory accounting deadlines to 31 July and 30 November 2020 respectively.

- 2.2 In preparing their Annual Report and Accounts, Funds must have regard to proper practice and to any guidance which has the effective standing of 'statutory guidance'. These are:
- for the Statement of Accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' (CIPFA) ('the Code');
  - for the Annual Report, 'Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds' (CIPFA).
- 2.3 As well as being published in the Fund's own annual report, its accounts must be included in the Statement of Accounts of the Administering Authority (in this case, the City of Wolverhampton Council). It is important to note that the transactions and balances of the Fund are completely separate and not combined with those of the Administering Authority.
- 2.4 This year, the draft accounts are required to be certified by the Section 151 Officer on or before 31 August 2020. This certification will be provided by the City of Wolverhampton Council's Director of Finance.
- 2.5 The final version of the Statement of Accounts for publication will be presented to the Pensions Committee with the Annual Report and the findings of the external auditor's work including their audit opinion. Under the City of Wolverhampton Council's constitution, formal approval of the audited Statement of Accounts rests with its Audit Committee; this does not apply to the other parts of the Annual Report which will be presented to Pensions Committee for approval.

### **3.0 Accounts Closure and Preparation of the Annual Report**

- 3.1 Despite extraordinarily challenging circumstances this year which have created new and unanticipated conflicting pressures, the Fund has succeeded in preparing its draft Statement of Accounts (incorporating merger with the WMITA Pension Fund), currently in the process of final review, in time to allow the external audit to follow closely the timetable outlined in Grant Thornton's Audit Plan as presented to Committee in March. In practice the timetable has been delayed by 2-3 weeks, impacting the timing of reporting to the Pensions Committee.
- 3.2 An Annual Report will be prepared to include the finalised version of the Statement of Accounts.
- 3.3 With effect from 2017/2018, the accounts closure timetable was brought forward significantly with certification of draft accounts required by the end of May and the audited accounts to be published by the end of July. As noted above, for the 2020 year-end, timescales have been extended in view of the anticipated impact of Coronavirus on Authorities meeting the statutory deadlines.
- 3.4 The Fund's external auditors have already undertaken interim audit work with the Fund, testing the investments, valuations and transactions records to end of December 2019. In addition the auditors have, undertaken review work on the WMITA Pension Fund and the unitisation of the two separate funds with no concerns on the implementation and operation of the unitised funds ahead of transfer to the Admitted Body Separate Funds.

### **4.0 Draft Statement of Accounts 2019/2020**

- 4.1 The purpose of the Statement of Accounts is to report the Fund's financial performance for the year and its balances and reserves at the year-end. There are two primary statements: The Fund Account, which is concerned with transactions during the year and the Net Assets Statement which reports balances at the year-end. These are supplemented by a series of notes to the accounts which expand on items in the primary statements or provide further information about the Fund.
- 4.2 During 2019/2020, the market value of the Fund, fell by some £0.42 bn, primarily due to falls in investment assets of £0.72bn.
- 4.3 It is worth noting that the balance of contributions and benefits is negative in 2019/2020 by £0.27 bn due to most of the Council bodies having already paid three years Future Service and Past Service Deficit contributions in advance in 2017/2018 (based on the 2016 Actuarial Valuation). The balance between the two is likely to be positive in 2020/2021 as in April 2020, Councils have again paid significant amounts of contributions in advance following the results of the March 2019 triennial Actuarial Valuation.

The figure for contributions receivable includes £19.2 million paid by employers to cover early retirement strain costs, reflecting the additional contributions received as a result of employer staffing decisions taken during the year.

- 4.4 Net assets of the Fund at 31 March 2020 stood at £15.3 billion, down from £15.7 billion at 31 March 2019. This comprised investment assets of £14.9 billion, an insurance contract valued at £229m and working balances of £122 million.
- 4.5 The Fund has taken the option under the Code to disclose the present value of all fund employer pension liabilities in a note to the accounts. This value, calculated on an IAS 19 basis, stood at £23.1 billion at 31 March 2020. This is an increase on the 31 March 2019 figure of £22.4 billion as it includes WMITA Pension Fund liabilities of £0.5 billion and the net impact of adjustments to the actuarial assumptions was to increase liabilities.

## 5.0 Investment Management Costs 2019/2020

- 5.1 CIPFA guidance introduced in 2014 requires the disclosure of all investment management costs including fees which are deducted at source by external investment managers. External investment management costs in aggregate amounted to £81.7m up from £79.3m of which those deducted at source saw a further increase on the prior year at £67.7million up from £62.2 million. Reported costs include performance fees and transaction costs (both within and between investment sub-funds). The Fund has been gathering cost transparency data from its external managers and at this time is completing validation the data received to ensure accuracy and consistency in reporting by Fund managers. The following table analyses the total investment management costs reported above:

	Actual 2018/19 £m	Actual 2019/20 £m
External Investment Management Costs – Invoiced	13.3	10.5
External Investment Management Costs – Deducted at Source	62.2	67.2
External Investment Management Costs – LGPS Central	3.8	4.0
<b>Total External Investment Management Costs</b>	<b>79.3</b>	<b>81.7</b>
Internal Investment Management Costs	0.6	0.9
<b>Total Investment Management Costs</b>	<b>79.9</b>	<b>82.6</b>

## **6.0 Annual Report 2019/2020**

6.1 The finalised Annual Report will be made available on the Fund's website in the Autumn, <http://www.wmpfonline.com/annualreports>. The contents of the Annual Report will be as follows:

- Introduction
- Management and Financial Performance
- Investment Policy and Performance
- Scheme Administration Report
- Actuarial Report
- Governance Arrangements
- Statement of Accounts
- Pensions Administration Strategy
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement
- Further Information

## **7.0 Financial implications**

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

## **8.0 Legal implications**

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

8.2 The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, came into force on 30 April, extend the publication date for local authority audited accounts to 30 November 2020 with the public inspection period starting on the first working day of September 2020.

8.3 Under LGPS Regulations, Administering Authorities are required to produce and publish a pension fund annual report, including information about the management and financial performance of the Fund by 1 December each year.

## **9.0 Equalities implications**

9.1 This report has no equalities implications.

## **10.0 Environmental implications**

10.1 This report has no environmental implications.

**11.0 Human resources implications**

11.1 The report has no human resources implications.

**12.0 Corporate landlord implications**

12.1 This report has no corporate landlord implications.

**13.0 Schedule of background papers**

13.1 External Audit Plan 2020-2021 – 25 March 2020 - Pensions Committee

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report Title</b>	Customer Engagement Update	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Simon Taylor	Head of Pensions
	Tel	01902 55 4276
	Email	<a href="mailto:Simon.taylor2@wolverhampton.gov.uk">Simon.taylor2@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
	Tel	01902 55 1715
	Email	<a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Board is asked to note:

1. The postponement of review and potential revision to the Pensions Administration Strategy (PAS) and the associated consultation, as approved by Pensions Committee.
2. The engagement activity and customer support provided in the context of the Covid-19 restrictions.
3. The high-level overview of planned activity and changes made to the annual Customer Engagement Plan.

## **1.0 Purpose**

- 1.1 To provide Board with a high-level update of the Fund's customer engagement activity, in the short-term primarily based around the Covid-19 outbreak and the support available from the Fund, to include assurance of continued service delivery.
- 1.2 To cover future planned customer engagement activity in the context of the Fund's Customer Engagement Strategy.

## **2.0 Background**

- 2.1 One of the Fund's key objectives is to engage to improve outcomes for our customers. In line with this objective, the Fund has published, and keeps under review, a Customer Engagement Strategy, to review satisfaction and help inform improvements to its pension services.

## **3.0 Covid-19 related engagement**

- 3.1 Prior to and following the Prime Minister's announcement on 23 March 2020 implementing 'lockdown' restrictions in response to the Covid-19 outbreak, the Fund has undertaken a wide range of proactive engagement with our customers. Certain elements of this were prepared in anticipation of the announcement, with other elements being more reactive, with an increase in communications since 23 March.
- 3.2 In line with Board reporting cycles, this report was set to be aligned to the period 1 January 2020 to 31 March 2020, however acknowledging the timing of the Prime Minister's announcement and the unprecedented and rapidly evolving situation (both nationally and regionally), it covers known and planned engagement conducted in the run-up to the Board meeting on 9 July 2020. A summary of larger-scale communications over this period, including support around Covid-19, is covered in Appendix A.

### **3.3 Member engagement**

- 3.3.1 The Fund has produced a comprehensive set of Frequently Asked Questions (FAQs) for both members, which are available on the Fund's website and signposted during any member phone calls to the Customer Helpline. These have been developed from the queries received by the Fund from members, but also in conjunction with the Local Government Association (LGA) for the wider LGPS, noting that the Fund undertook a leading role in their development, but also to include topical and pertinent issues related to the Covid-19 outbreak and the LGPS.
- 3.3.2 For members the primary aim was to provide assurance on the steps taken by the Fund and the continued ability to ensure payment of pensions emphasising to members that their benefits are not directly affected by investment market volatility. It also extended to confidence around service delivery and highlighting awareness of potentially heightened risk of scams. A copy of member FAQs is available on the Fund's website:  
<https://www.wmpfonline.com/covid19faq>

3.3.3 The Fund has also written to all of our Additional Voluntary Contribution (AVC) members highlighting the possible impacts of the recent market volatility on their AVC funds along with supporting information and useful links.

3.3.4 Included within each of the annual deferred and pensioner newsletters, was a tailored update on the current situation in terms of the Fund and its Covid-19 response as well as an assurance piece to reinforce the continued and unaffected ability to pay pensions as well as ongoing service provision. On a similar vein, a bulk email was sent to all active members with an email address (approximately two thirds) based around the same content. These newsletters and bespoke emails again flagged the FAQs available.

3.3.5 The Fund's Customer Services Team and Employer Services Team have maintained their opening hours on the respective helplines during the Covid-19 outbreak. Further details of volumes and associated service levels are provided in the Pensions Administration report, with good levels of customer satisfaction retained during this period.

#### 3.4 **Employer engagement**

3.4.1 The Fund has also produced a comprehensive set of Frequently Asked Questions for employers, again available on the Fund's website, and also sent on a bulk email to all participating employers. These have been developed from the queries received by the Fund from employers, but also to include topical and pertinent issues related to the Covid-19 outbreak and the LGPS.

3.4.2 For employers, the emphasis was on continued service delivery, but also to cover their roles and responsibilities to the Fund and the support available, with some specific content such as LGPS implications in terms of furloughing arrangements and assurance around expected stability of contributions for the next three years despite current market volatility. A copy of employer FAQs is available on the Fund's website:  
<https://www.wmpfonline.com/CHttpHandler.ashx?id=17676&p=0>

3.4.3 Acknowledging the uncertainty and pressure facing many employers at this time, both in terms of resourcing/capacity and finances, the Fund issued a tailored survey to all employers to better understand the issues many of them are facing and also collate useful information to enable the Fund to provide enhanced support where appropriate. A summary of the results of this survey are attached in Appendix B. Following review of the main outcomes, as a next step the Fund is developing and implementing an action plan to address some of the issues identified and, where possible, reach out to individual employers to better understand the challenges they are facing.

3.4.4 The participation levels in the Employer Resilience survey were encouraging with 262 respondents covering approximately 68% of the active membership as at the end of April. The Fund is in the process of following-up with certain non-respondents to gather relevant information to support review of potential implications across the employer base.

- 3.4.5 Overall, the survey outcomes proved positive, with the majority of employers confirming resilience in terms of business as usual activity during the Covid-19 restrictions. Half of the respondents confirmed resourcing levels were largely unaffected with a further 39% at 75-99% capacity. A small minority (8%) confirmed resources of less than 74% and unsurprisingly for a number (4.2%), resourcing levels were currently unknown. The Fund will follow-up with employers in both of these latter groups, to better understand overall capacity and any associated issues.
- 3.4.6 83% of respondents confirmed that they expected to be able to process monthly data files within agreed timescales and the remainder with potential for delays in some form. The Fund's Employer Services team will follow-up with the 7% (covering 4,772 active members in total) expecting possible delays to better understand issues and inform wider consideration of next steps. In terms of other data related elements, around 70% were able to maintain business as usual, a further 6-7% with potential for delays and only 1% (the same employer across three admission agreements) unable to submit leaver paperwork. Again, the Employer Services team will engage further with this employer.
- 3.4.7 95% of respondents confirmed an expectation to continue to be able to pay contributions on a monthly basis within statutory timescales, with the remaining 5% (representing 4,514 active members in total) subject to possible delays. Further dialogue will be opened with these employers. On the other financial matters covered by the survey, the significant majority of employers were able to confirm business as usual for the payment of invoices and end of year financial statement.
- 3.4.8 Finally, the Fund surveyed employers' intentions with regards to the Governments "Furlough" (Job Retention Scheme (JRS)), with broadly 40% of respondents confirming they were due to apply for some or all of their active employees. As anticipated, there was notable diverge in employer take-up of JRS across the various groups, with Admission Bodies and Higher/Further Education expecting a high level of participation. A smaller minority (12%) expected to provide top-ups to JRS (whereby the employer bridges the gap in remuneration between the 80% provided by JRS and actual full-time equivalent earnings).
- 3.4.9 As the situation evolves, with further Central and Local Government announcements for developing and changing financial support and lifting restrictions on operations, the Employer Services Team will develop its action plan and will consider issuing a further survey in due course.

### 3.5 Internal engagement

- 3.5.1 Recognising the importance of ensuring internal stakeholders are kept up to date on the Fund's progress and associated developments during the Covid-19 outbreak, particularly with increased remote working, the Member Services team provided a tailored weekly update to all Fund staff highlighting important news and developments on individual teams to supplement the regular monthly Employee Briefing. These more regular updates, during a period of rapid change, complimented the quarterly employee briefings

and interim updates provided by the Director of Pensions and the Senior Management Team.

#### **4.0 Customer Engagement Strategy**

- 4.1 Outside of bespoke issues or new developments, the Fund's ongoing customer engagement is largely structured around the Customer Engagement Strategy and associated Customer Engagement Plan. Whilst the immediate focus for customer engagement has largely been around Covid-19 related matters there has continued to be a range of engagement aligned to business as usual, many of which are covered by the larger-scale communications outlined in Appendix A.
- 4.2 A notable piece of bespoke engagement was the issuing of communications to all former Equitable Life AVC members (276 in total) around the move to Utmost Life, to include the default arrangement in terms of individual fund choices and noting that advice received by the Fund has recently changed in that regard, due to the current market environment as a result of the Covid-19 outbreak.
- 4.3 Nonetheless, acknowledging the impact of Covid-19 restrictions in this area, and in particular the ability to carry out face-to-face engagement, the Fund has reviewed and amended the Customer Engagement Plan with the new version presented in Appendix C. Given the immediate restrictions and the likely requirement for social distancing measures for some time, but also recognising the planning required, the Fund decided to cancel all face-to-face engagement until the end of August with a further review at that point. In place of this face-to-face engagement (roadshows, one-to-ones etc.) the Fund is rolling-out a series of webinars and facilitate other digital engagement methods where appropriate (more details provided in the future activity section below).

#### **5.0 Pensions Administration Strategy (PAS) review and consultation**

- 5.1 In line with the regulatory requirement to regularly review the PAS, there was originally an intention to undertake a further review of the PAS and associated Employer Engagement Roadmap with a view to finalising the initial draft and circulating for consultation with employers during April 2020.
- 5.2 Due to a shift in current priorities, the Fund proposed to postpone this review until the latter part of 2020 and this was approved by Pensions Committee at the meeting held on 17 June 2020. This will further enable the Fund to review the monitoring and management information available to support the review and also time the consultation during a period whereby employers are better able to engage and respond.
- 5.3 The LGPS Regulations do not prescribe a timeframe for review of the PAS, but rather that it should be kept under review and any amendments made as considered material. Following the most recent review, a revised statement was published in April 2019. As such, the Fund has confirmed with City of Wolverhampton internal audit that this approach will be acceptable.

## 6.0 Future engagement

6.1 In accordance with the postponement of face-to-face engagement, the Member Services team re-launched its member support from June 2020 onwards via member webinars and following up with individual telephone consultations as required. These webinars will start with a bitesize session of the “LGPS & You” presentation and last approximately 35 minutes.

6.1.1 Initially, the team are targeting the Fund’s largest 35 employers with a view to rolling them out to all employers over the coming months. The team appreciates the challenges that many of our employer’s face working from home and in some cases with reduced resources, therefore initially propose to liaise with each employer one at a time and contacting their members direct via the members email address that we hold on the system, so as to avoid causing employers more work associated with advertising. We will of course engage with employers first to ensure they are comfortable with this method of advertising support. The Fund also intends to use these webinars as an avenue to increase member web portal up-take, through engagement with participating employers.

6.1.2 Annual Benefits Statements are due to be released in June for deferred members and in August for active members, therefore the member services team will assist members to engage with their benefits by offering further webinars on “How to register on portal” and “How to understand your annual benefit statement”.

6.2 Again, due to the inability to meet face-to-face, the Fund hosted the Employer Peer Group in June 2020 using Microsoft Teams. Items covered in this meeting included:

- Outcomes of Employer Resilience Survey and development of associated action plan
- Outline of proposed member and employer webinars
- Employer Mid-year Review content and access
- Employer Hub development, pilot testing and roll-out
- Pre-emptive look at Pensions Administration Strategy from an employer perspective

6.3 In a similar vein to the member webinars and acknowledging the need to evolve employer engagement in line with remote working requirements, the Fund is in the process of producing a suite of employer webinars for roll-out over coming months. These will cover topical issues from an employer perspective, to include their roles and responsibilities, such as:

- Fund update on Covid-19 service delivery
- Becoming an LGPS employer
- Ill Health Early Retirement
- Pay and service
- Monthly Data Collection
- Refunds
- Deferrals

- Retirements

6.4 The Fund plans to issue further surveys to the employer-base, to ensure we remain at the forefront of any challenges faced by employers, but also to enable us to tailor our engagement to their requirements going forward. As such, the Fund has recently issued a survey to all employers intended to gauge appetite around online delivery of the 2020 Employer Mid-Year Review and also to include possible content, which will inform a decision on delivery and subject matter. The feedback from this survey will help inform development of a virtual Employer Mid-Year Review event, with reflection on the 2019 AGM feedback to be considered in the context of the 2020 event later this year. Further surveys will be used to explore financial and funding challenges and those which might impact on mid to longer-term covenant.

6.5 Finally, noting the immediate changes made to the Customer Engagement Plan as outlined in this paper and appendix C, the Fund is in the process of reviewing the overarching Customer Engagement Strategy and Communications Policy and will present revised versions to Pension Committee and Local Pensions Board at a forthcoming meeting.

## **7.0 Financial implications**

7.1 The report contains no direct financial implications

## **8.0 Legal implications**

8.1 The report contains no direct legal implications.

## **9.0 Equalities implications**

9.1 The report contains no direct equalities implications.

## **10.0 Environmental implications**

10.1 The report contains no direct environmental implications.

## **11.0 Human resources implications**

11.1 This report contains no direct human resources implications.

## **12.0 Corporate landlord implications**

12.1 The report contains no direct corporate landlord implications.

## **13.0 Schedule of background papers**

13.1 Member Frequently Asked Questions (<https://www.wmpfonline.com/covid19faq>)

13.2 Employer Frequently Asked Questions  
(<https://www.wmpfonline.com/CHttpHandler.ashx?id=17676&p=0>)

**14.0 Schedule of appendices**

14.1 Appendix A: Fund larger-scale communications 1 March to 15 June 2020

14.2 Appendix B: Employer Resilience Survey – summary outcomes

14.3 Appendix C: Customer Engagement Plan

## Appendix A: Large-scale communications 1 March 2020 to 15 June 2020

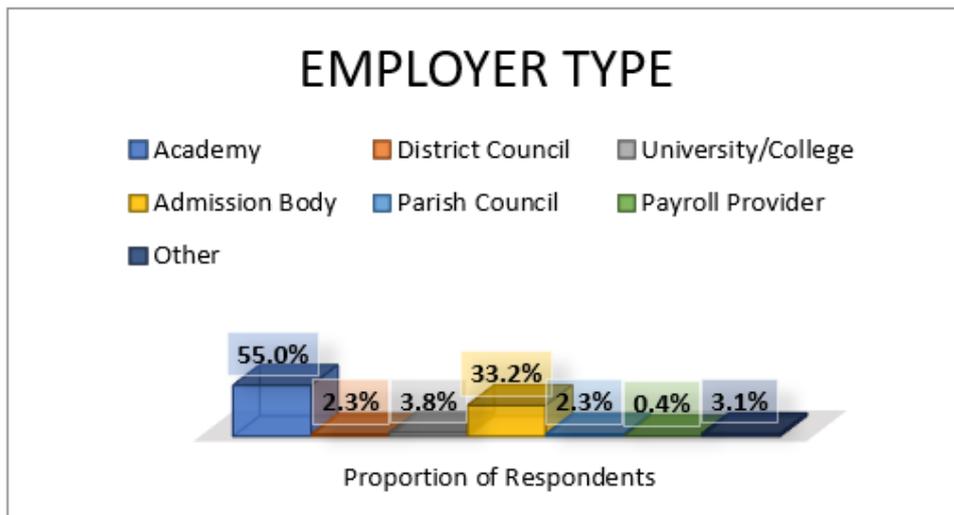
Date	Communication	Type / Purpose	Employer/Member	Target Audience	Number of customers involved
11/03/2020	Business Continuity assurance statement	Email/Covid-19 information	Employer	All employers	701
17/03/2020	Notice to deferred WMITA members re: merger	Paper / Merger comms	Member	Former WMITA deferred members	554
18/03/2020	Notice to active WMITA members re: merger	Paper / Merger comms	Member	Former WMITA active members	274
20/03/2020	Notice to pensioner WMITA members re: merger	Paper / Merger comms	Member	Former WMITA quarterly/annual pensioners	68
31/03/2020	Electronic forms confirmation (medical and retirement options forms)	Email/Covid-19 support	Employer	All employers	701
03/04/2020	Member Covid-19 FAQs	Website / Covid-19 information	Member	All members	4,180 hits (to end May)
16/04/2020	Employer Covid-19 FAQs	Email & Website / Covid-19 information	Employer	All employers	701
15 - 24/04/2020	Notice re: delayed pensioner payslips, signposting useful local support and FAQs	Email / Pensioner & Covid-19 information	Member	All pensioner members with email address	30,441 (73% opened)
21/04/2020	Notice to Prudential members re: falls in AVC values and support available	Email / AVC & Covid-19 information	Member	All active Prudential AVC members	2,601 (72% opened)
24/04/2020	P60s/Pensioner payslips, Newsletters and Covid-19 FAQs	Paper / Pensioner & Covid-19 information	Member	All pensioner members	86,243
04 - 05/05/2020	Active member Covid-19 mailing	Email / Covid-19 information	Member	All active members with email address	66,147
08/05/2020	Notice to pensioner WMITA members re: merger	Paper / Merger comms	Member	Former WMITA monthly pensioner members	3,958
18/05/2020	Pensioner Newsletters and Covid-19 FAQs	Paper / Pensioner & Covid-19 information	Member	All quarterly/annual pensioner members	17,139
25/06/2020	Utmost Life AVC - investment choice default update	Paper /AVC information	Member	Utmost Life AVC members	276
08/06/2020	Email bounce backs - Request members to update their email address	Paper /Record keeping	Member	Selected members - erroneous email addresses	6,243
08/06-31/07/2020 (staggered)	Notice to confirm Deferred Benefit Statement is online	Email / Deferred member information	Member	All deferred members with email address	33,096
08/06-31/07/2020 (staggered)	Deferred newsletter	Email / Deferred member information	Member	All deferred members with email address	33,096
07/06/2020	Utmost confirmation of Fund switches	Paper /AVC information	Member	Utmost Life AVC members	276
<b>Total</b>					<b>286,695</b>

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## Covid-19 Employer Resilience Survey – May 2020 Summary of responses

### 1. Respondents

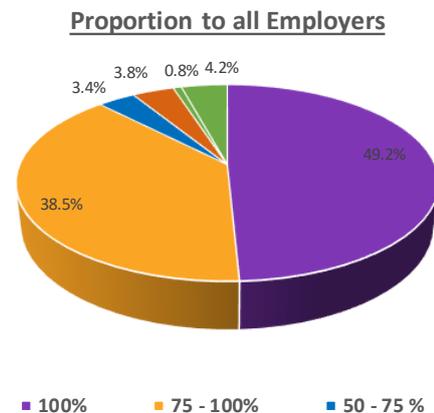


262 respondents in total covering 79,731 active members (68% of total active membership as at 30 April 2020)

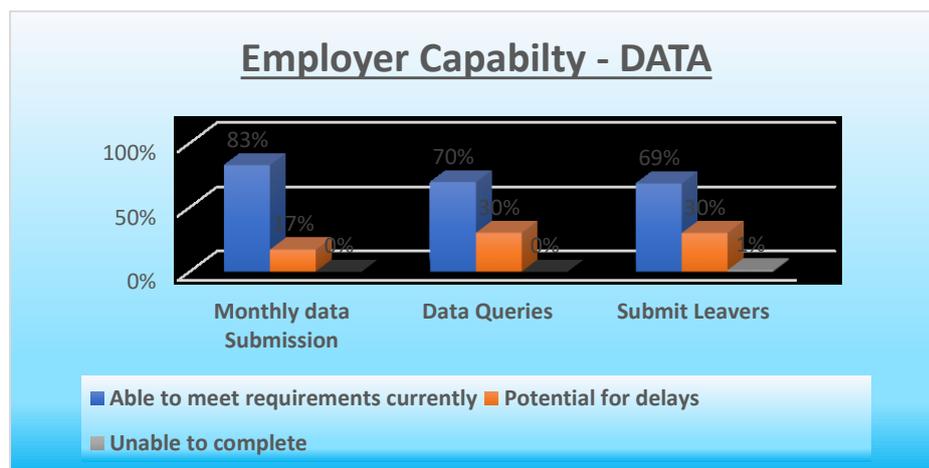
### 2. Current resource levels (to carry out duties in PAS)

\*Current resourcing levels in terms of your ability to meet the core employer requirements in line with the Funds Pensions Administration

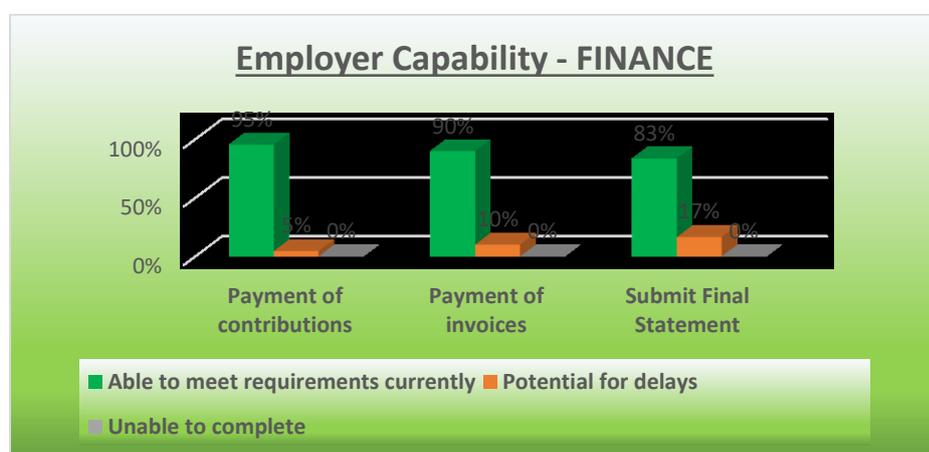
<b>General</b>		
<b>Resourcing Levels</b>	<b>No. of Employer Responses</b>	<b>Proportion to all Employers</b>
100%	129	49.2%
75 - 100%	101	38.5%
50 - 75 %	9	3.4%
Less than 50%	10	3.8%
0%	2	0.8%
Unknown	11	4.2%
<b>Total</b>	<b>262</b>	<b>100.0%</b>



## Employer Capability – Data



## Employer Capability - Finance



### 3. Furlough arrangements summary

Employer type	JRS uptake %	Top-up uptake %
Academies	17%	7%
Districts	17%	0%
HE/FE	40%	10%
Admitted Body	76%	7%
Parish Council	17%	0%
Other	50%	25%

- 39% of employer respondents are taking up JRS
- 12% of employer respondents undertaking top-up

**Simon Taylor**  
**Head of Pensions**  
**20 May 2020**

# CUSTOMER ENGAGEMENT PLAN 2020/21

	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021
<b>Employer</b>	New Employer coaching session	Year-end requirements issued Employer survey Employer Peer Group		Launch Customer Engagement Strategy 2020	Accounting disclosure year-end 31 March	Webinars: Monthly Data Submission; Retirements; Fund Update Employer Brief Employer Peer Group BASBM conference	Employer Mid-Year Review Webinars: Monthly Data Submission; Retirements;	Webinar: Tenders, TUPE, Admission Bodies, Pass Through Employer survey	Webinars: Refunds; Deferments Accounting disclosure year-end 31 July Employer Peer Group Employer Brief	Webinars: Monthly Data Submission; Pay and Service Accounting disclosure year-end 31 August PSD payment reminders	Webinars: Pay And Service; Fund Induction; Ill-Health Retirements BASBM conference	Employer Brief Annual General Meeting Employer Peer Group	Employer coaching session Employer survey Webinars (tbc)	Year-end requirements issued Webinars (tbc)	Employer Peer Group Employer coaching session Webinars (tbc)
	Employer valuation consultation		COVID Impact Support	Valuation results certified	PSD payment reminders										
	FSS consultation	Final valuation contribution confirmed													
<b>Member (active)</b>	Pensions tax Pensions Portal Pre-retirement workshops WM Travel merger letter	Pensions Portal Pre-retirement workshops ELAS merger letter	Depot roadshows Pensions Portal Pre-retirement workshops	Member Covid19 support email	ELAS merger update letter	City of Wolverhampton Council webinars x3 Walsall MBC webinars x 1	Walsall MBC webinar x 2 Solihull MBC webinar x 3 Sandwell MBC webinar x 4 Dudley MBC webinar x 4 Coventry CC webinar x 6 Ensuring website compliance with public sector access requirements	Annual benefit statements ABS email notification Birmingham CC webinars x 8	District roadshow (tbc) Pre-retirement workshops (tbc)	Active newsletter Pensions Portal Pre-retirement workshops (tbc) Member survey (tbc)	Pensions tax webinars Pensions Portal (tbc)	Pensions Portal (tbc) Pre-retirement workshops (tbc) Christmas card	Pensions tax Pensions Portal (tbc) Pre-retirement workshops (tbc)	Pensions Portal (tbc) Pre-retirement workshops (tbc)	Depot roadshows (tbc) Pensions Portal (tbc) Pre-retirement workshops (tbc)
<b>Member (deferred)</b>	Pensions tax Pensions Portal Pre-retirement workshops WM Travel merger letter	Pensions Portal Pre-retirement workshops ELAS merger letter				Deferred benefit statement (DBS) DBS email notification	DBS email notification Ensuring website compliance with public sector access requirements		District roadshow (tbc) Pensions Portal prize draw Pre-retirement workshop Deferred newsletter	Pensions Portal Pre-retirement workshops (tbc) Member survey (tbc)	Pensions tax webinars (tbc) Pensions Portal (tbc)	Pensions Portal (tbc) Pre-retirement workshops (tbc) Christmas card	Pensions tax webinars (tbc) Pensions Portal (tbc) Pre-retirement workshops (tbc)	Pensions Portal (tbc) Pre-retirement workshops (tbc)	Depot roadshows (tbc) Pensions Portal (tbc) Pre-retirement workshops (tbc)
<b>Member (pensioner)</b>			Quarterly payslips issued Pensioner newsletter Covid19 support email	Pensioner newsletter		Quarterly payslips issued			District roadshow (tbc) Pensions Portal prize draw Quarterly payslips issued Ensuring website compliance with public sector access requirements	Pensioner engagement forum (tbc)		Quarterly payslips issued			Pensioner newsletter Quarterly payslips issued
<b>Pensions Committee/ Board</b>	LGPS monthly updates Pensions Board meeting	LGPS monthly updates	LGPS monthly updates Pensions Committee	LGPS monthly updates Pensions Board	LGPS monthly updates	LGPS monthly updates Pensions Committee Induction training	LGPS monthly updates Employer Mid-Year Review Pensions Board	LGPS monthly updates	LGPS monthly updates Pensions Committee	LGPS monthly updates Pensions Board	LGPS monthly updates	LGPS monthly updates Annual General Meeting including Committee and Board Pensions Committee	LGPS monthly updates Pensions Board meeting	LGPS monthly updates	LGPS monthly updates Pensions Committee

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report Title</b>	Pensions Administration Report from 1 October to 31 March 2020	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Amy Regler Tel Email	Head of Operations 01902 55 5976 <a href="mailto:Amy.Regler@wolverhampton.gov.uk">Amy.Regler@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 <a href="mailto:Rachel.Brothwood@wolverhampton.gov.uk">Rachel.Brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Board is asked to note:

1. The pensions administration activity and that performance targets were met across the key benefit operations processes during the reporting period.
2. The impact of COVID19 on the workload volumes for pension administration.
3. The update on the progress of the Fund's Digital Transformation Programme.
4. The updated the Administering Authority Discretions Policy for 2020.

## 1.0 Purpose

- 1.1 To inform the Board of the routine operational work undertaken by the pensions administration service areas during the period 1 October 2019 to 31 March 2020. This includes members and employers of the Main Fund and the former WMITA Pension Fund, following merger of the West Midlands LGPS funds, effective from April 2019.

## 2.0 Background

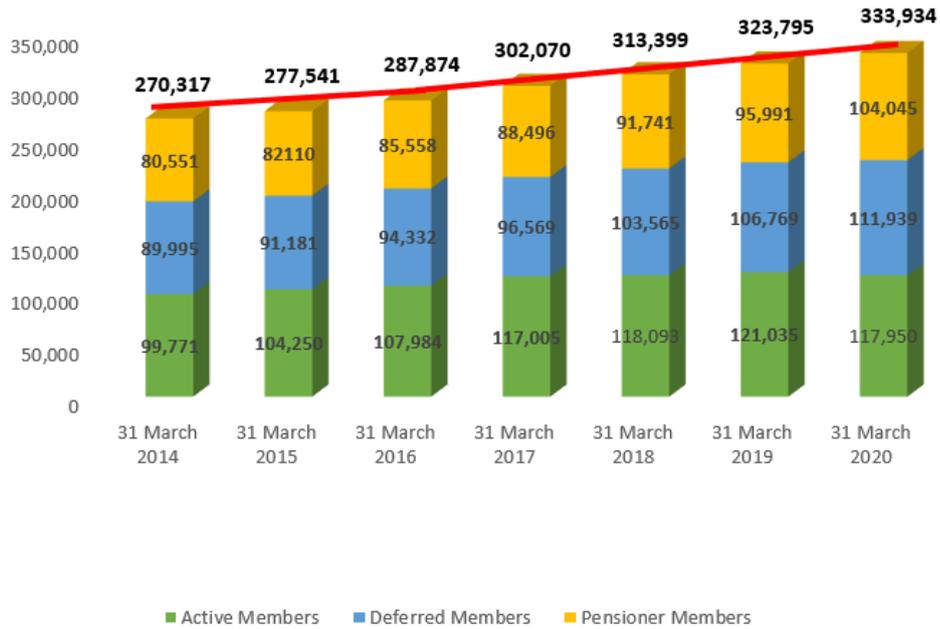
- 2.1 The Fund provides a pension administration service covering employer, customer and member services, data processing, benefit operations, payroll and systems/technical support. A report is provided to the Board on a quarterly basis (covering six months on this occasion due to the cancellation of the April Board meeting) to assist monitoring of the activity and performance of these functions during that period. Data management is covered in a separate report.

## 3.0 Scheme Activity

### 3.1 Membership movement

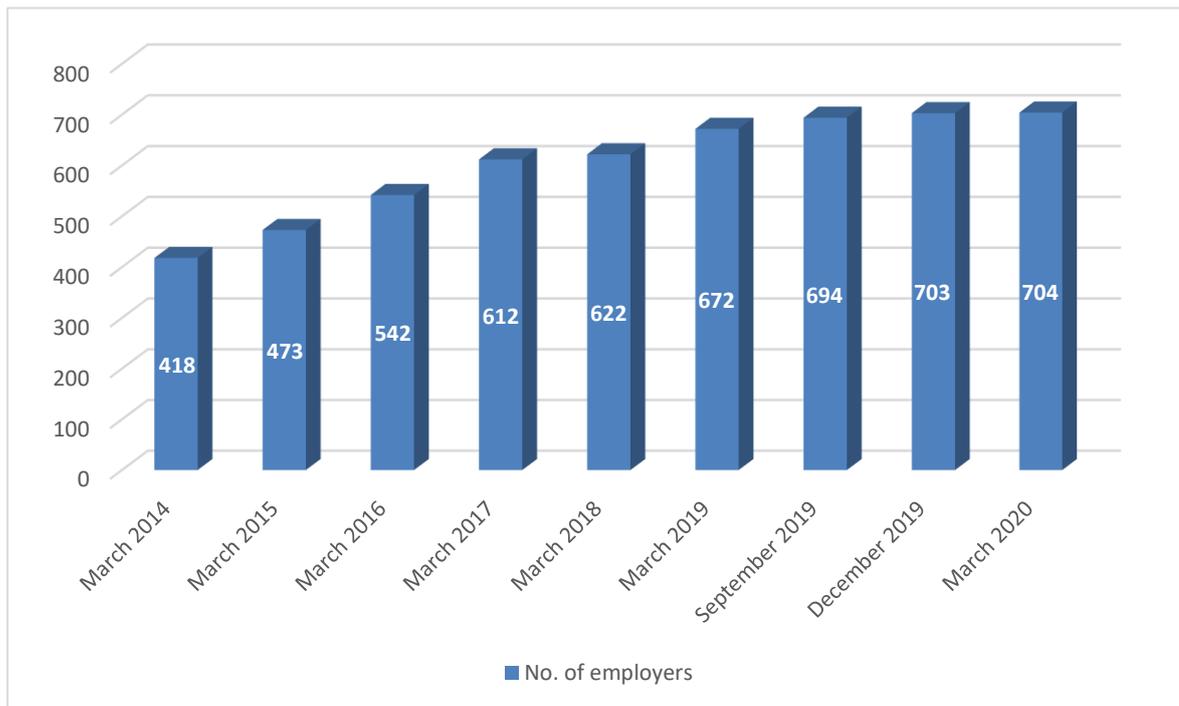
- 3.1.1 The total number of scheme member records in the Fund at 31 March 2020 stands at 333,934, with an overall increase since September 2019 of 3,696. This reporting period sees a slightly higher increase in the total number of members, as it also includes the WMITA Pension Fund figures. The long-term trend over a 12-year period in membership continues to illustrate a move towards a more mature profile whereby, in general, pensioners and deferred memberships continue to rise.

	Membership as at 30 September 2019	Net Movements during the period	Membership as at 31 March 2020
	Total	Total	Total
Active Members	117,714	236	117,950
Deferred Members	110,275	1,664	111,939
Pensioner Members	102,249	1,796	104,045
<b>Total Members</b>	<b>330,238</b>	<b>3,696</b>	<b>333,934</b>

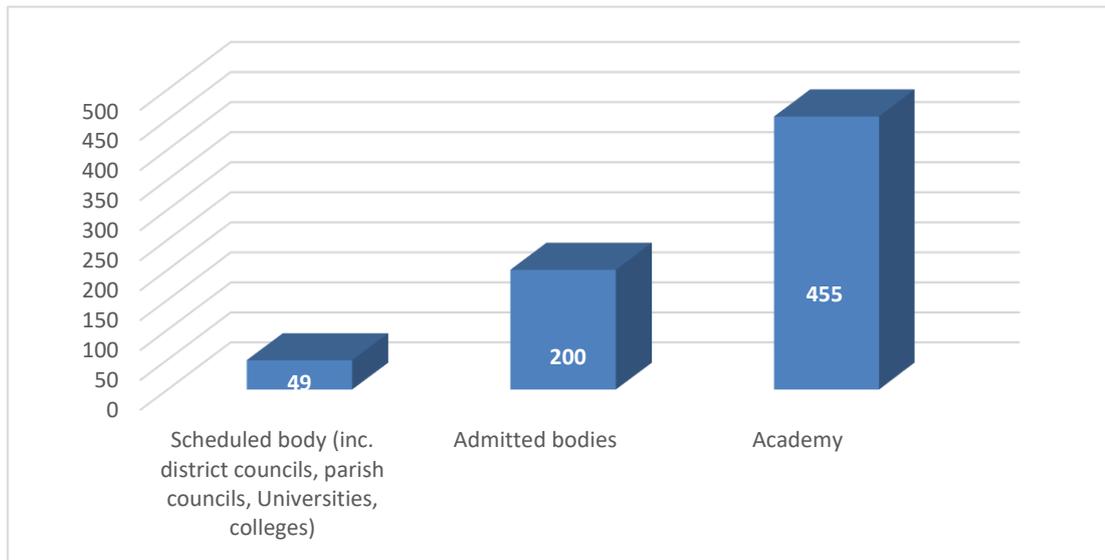


### 3.2 Employers

3.2.1 The Main Fund continues to see an overall upward trend in employer numbers, with an increase of 5 employers since the last reporting period in September 2019. However, there was a decrease from December 2019 of 10 employers, a slightly lower number than previous reporting periods due to a number of applications in process but requiring the confirmation of pass through arrangements which requires additional time to action. The number of employers registered with the Fund as at 31 March 2020 is 704 a 67% increase since March 2014 as shown in the graph below.



3.2.2 The employer base is categorised into the following employer types:



3.2.3 The level of on-going work being processed at the end of the period is as follows: -

- 86 admission agreements
- 21 academies
- 54 employer terminations

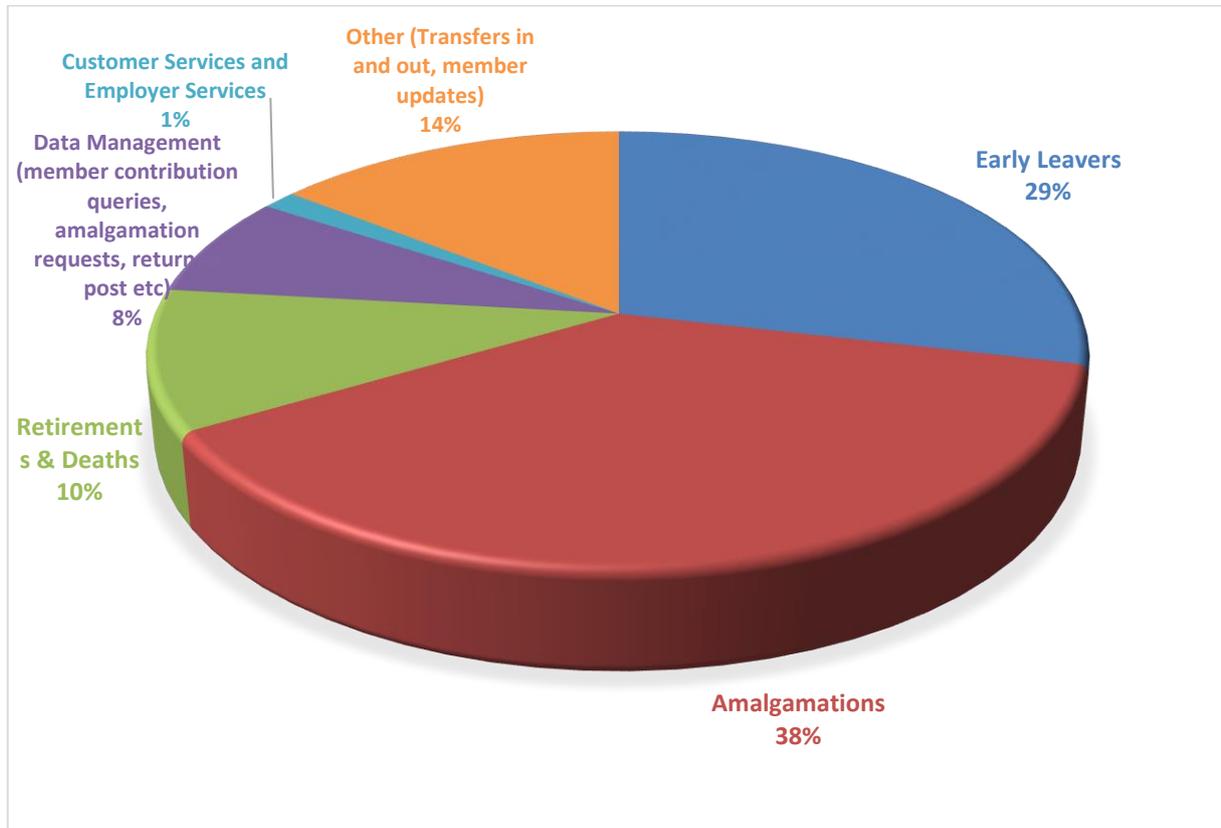
### 3.3 Workflow statistics

3.3.1 The process analysis statistics show details of overall workflow within the Pensions Administration Service during the period 1 October 2019 to 31 March 2020. During the period covered by this report, 84,022 administrative processes were commenced, and 75,770 processes were completed, as per the two periods below:

- 1 October – December 2019, 41,967 were commenced and 38,231 processes were completed
- 1 January – 31 March 2020, 42,055 processes were commenced, and 37,539 processes were completed

3.3.2 On 31 March 2020 there were 45,434 items of work outstanding. This represents an increase of 1,262 items outstanding compared to 30 September 2019 (44,172). Of the 44,246 items of work outstanding, 4,286 items were pending as a result of information awaited from a third-party e.g. scheme members, employers or transferring authorities and 41,149 processes are now either proceeding to the next stage of the process or through to final completion. A summary of the processes started and completed is detailed in Appendix A.

3.3.3 The total number of processes outstanding remains high and are broken down into the following key categories:



As shown in the graph above, most of the work is managing the movement of members between employments, where they have the option to amalgamate their records, and those members who leave the scheme before their retirement date. Work has been focussed on reducing the volume of early leavers and this has reduced, compared to the previous period. The Fund continues to review the volumes of incoming work and put in place plans to address high volume areas. This includes looking to increase the number of processes which could be completed in bulk and further analysis and review of the management of queries with employers to increase efficiency in processing.

3.3.4 A detailed analysis of the key processes completed across all operational functions e.g. calculating benefits for retirements, pensioner member data changes as well as the maintenance of updating membership details is shown in Appendix B

3.3.5 The overall impact of COVID 19 to date has seen the volume of incoming work reduce compared to the same period last year, despite significant increases in Death notifications (a total of 1327 and 50% increase in the 14 weeks following 23 March). The Fund is monitoring workloads on a weekly basis and ensuring resource is reallocated as far as possible to maintain service delivery and mitigate the impact on KPIs.

## **4.0 Digital Transformation Programme**

4.1 The aim of the programme is to support the Fund to transform its administration services using information and technology to drive processing efficiencies and cost savings whilst improving the service we provide to our members and responding to increasing volumes of benefit processing work.

4.2 Since the last report to Committee, the programme has seen some progress with the implementation of its key projects. An update on key development projects are detailed below:

### **4.2.1 Deferred Retirement Quotes Online**

As previously reported to Committee, following the amendment to the regulations to allow deferred members to access their pension from age 55, the Fund has seen a significant increase in the number of requests for members, and has been working with our software provider to develop functionality to enable members to self-service and perform a retirement estimate online. In April, this was made available to members, and within the first 8 weeks just under 2000 estimates were run by members.

The Fund is now looking at scoping Phase two of this project which will enable members to run a formal retirement quote and select their retirement options online.

### **4.2.2 Employer Hub**

The platform for exchanging data with our employers is the employer portal, which is key to ensuring efficient and secure exchange. The development work aims to improve the reporting functionality, user experience through design, availability of performance monitoring information and enable earlier issue resolution. Since the last update to Committee the initial round of testing the new functionality has been completed and the Fund is working with the software provider to refine and undertake any remedial work to further enhance the system. Following completion of this final development and testing, a pilot group of employers have agreed to support user-based testing, expected to follow over the summer of 2020.

### **4.2.3 Employer Web Trays**

This functionality will enable queries with data to be raised with employers via the web portal with the process being sent to the employers' web-tray for action. This development will support the flow of information and assist in monitoring queries and resolution, providing insight to the development of employer communications and coaching material and supporting faster resolution. Testing is now complete and a demonstration to the Employer Peer Group took place in October and more widely to employers at the Fund AGM in December. Work is underway to schedule the transition of this functionality into the live environment over the coming months.

## 5.0 Key Performance Indicators (KPIs)

- 5.1 The Fund uses a number of KPIs to measure performance when processing items such as Transfers In and Out, Retirements and Deferred Retirements. All the KPI's have been achieved for the reporting period.
- 5.2 Further information on KPIs by process by month over the reporting period and the cumulative performance for the year is included in Appendix C.

## 6.0 Pensions in payment

- 6.1 The gross annual value of pensions in payment for the Fund to March 2020 was £551.30m, £16.0m of which (£7.9m for pensions increase and £8.1m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.
- 6.2 Monthly payroll details were:

Month	Number	Value £
October 2019	85,500	39,069,274
November 2019	85,727	39,139,837
December 2019	94,897	39,948,141
January 2020	86,062	39,107,112
February 2020	86,301	39,289,844
March 2020	103,501	40,527,334

The December and March figures include pensioners paid on a quarterly basis.

## 7.0 Administering Authority Discretions Policy Statement 2020

- 7.1 Under the LGPS Regulations, the Fund is required to formally publish its policy on its 'discretions'. Administering authorities have certain powers which enable them to choose how they will apply the scheme in respect of certain provisions. These are called discretions. Discretions is taken to include where the administering authority is required to carry out a task, but an element of choice is seen to exist as to how the task is completed.
- 7.2 The Fund are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion, these are also to be published and kept under review. Within the policy there are circa 50 areas covered, and these include; admission of admission bodies, commutation of small pensions, management of funding strains, for example on member taking unreduced benefits on early retirement.
- 7.3 The Fund has undertaken its annual review of the policy and it was also reviewed as part of the external governance review undertaken in 2019, which identified no specific areas for development. In addition, as there have not been any major scheme changes since the revised version was implemented and therefore no changes are proposed to this statement following the review, it is updated to reflect and record the review being undertaken.

7.4 The policy statement is applicable from June 2020, a copy is attached at Appendix D.

## **8.0 Financial implications**

8.1 The report contains financial information which should be noted.

8.2 Employees of organisations who become members of the Local Government Pension Scheme will contribute the percentage of their pensionable pay as specified in the Regulations. The Fund's actuary will initially, and at each triennial valuation or on joining intervaluation, set an appropriate employer's contribution rate based on the pension assets and liabilities of the individual employer.

## **9.0 Legal implications**

9.1 The Fund on behalf of the Council will enter into a legally binding contract with organisations applying to join the Local Government Pension Scheme under an admission agreement.

## **10.0 Equalities implications**

10.1 This report has implications for the Council's equal opportunities policies, since it deals with the pension rights of employees.

## **11.0 Environmental implications**

11.1 The report contains no direct environmental implications.

## **12.0 Human resources implications**

12.1 This report has implications for the Council's human resources policies since it deals with the pension rights of employees.

## **13.0 Corporate landlord implications**

13.1 The report contains no direct corporate landlord implications.

## **14.0 Schedule of background papers**

14.1 None.

## **15.0 Schedule of appendices**

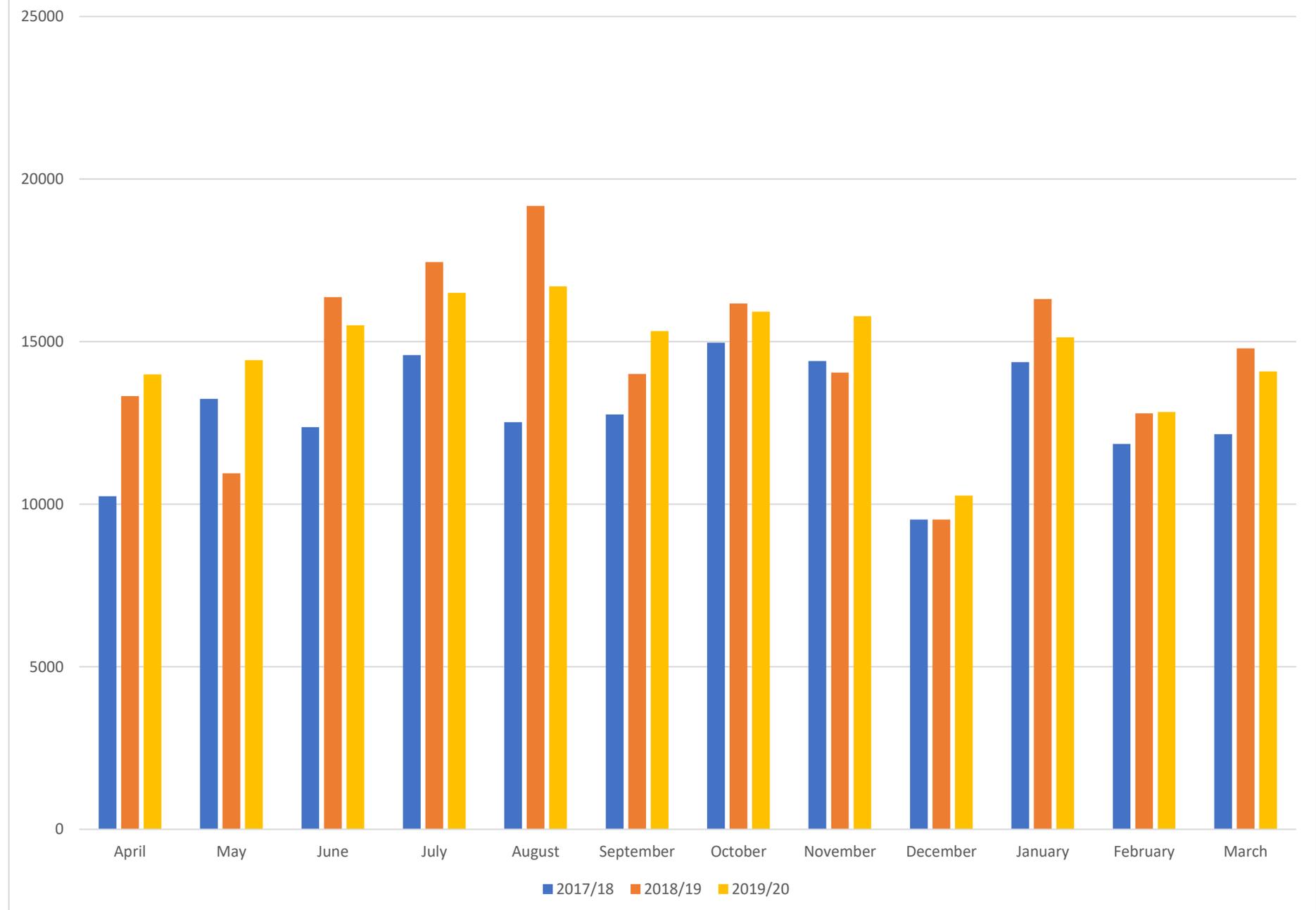
15.1 Appendix A: Process Summary

15.2 Appendix B: Detailed process analysis

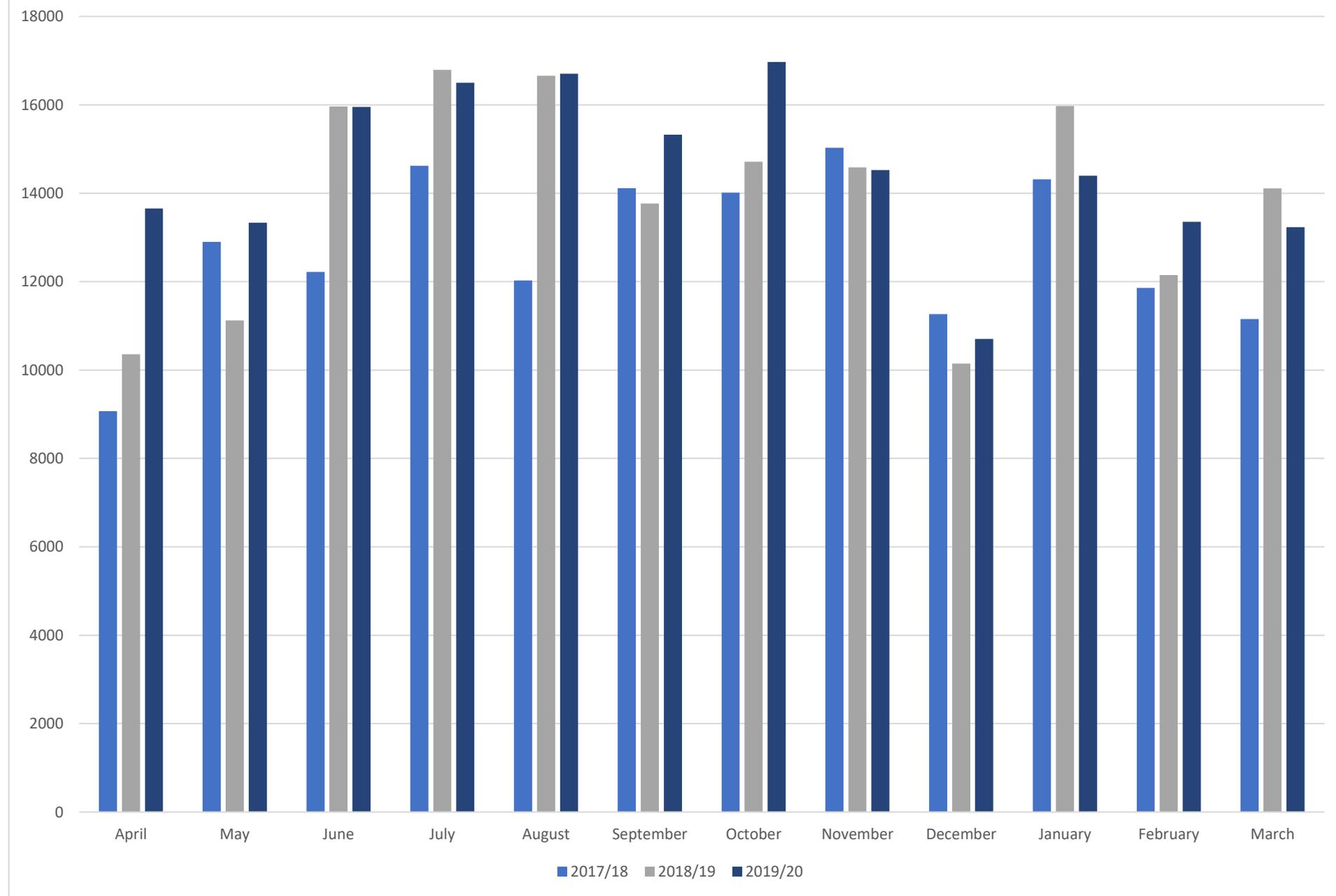
15.3 Appendix C: Key performance indicators (KPIs)

15.4 Appendix D: Administering Authority Discretion Policy

### Total Processes started - Yearly comparison



### Total Completed processes - Yearly Comparison





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**Pension Committee Statistical Report  
Detailed Process Analysis**

2018/19	April	May	June	July	August	September	October	November	December	January	February	March	2019/20
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**Active & Deferred members**

Process type														
Joiners and Rejoiners (Bulk)*	25509	1635	1642	1471	2468	1006	1150	1477	1966	2099	1983	1225	1817	19939
Changes in circumstances eg change in hours	5725	499	717	519	691	629	545	529	532	330	585	617	465	6658
Deferments**	15934	888	831	678	998	1041	1406	1862	1318	212	829	847	1084	11994
Active Retirements (Employer retirements)	2280	163	166	181	205	245	152	187	145	136	172	166	194	2112
Deferred Retirements	4814	693	352	411	338	452	648	438	433	314	445	182	365	5071
Deaths of members	429	28	33	37	36	21	44	36	62	32	37	40	35	441

**Pensioner members**

Process type														
Changes in circumstances:-														
Data eg Passwords, NI Numbers	2694	181	280	214	266	196	181	186	197	103	149	142	99	1953
Changes of Address	2628	335	345	213	279	226	200	247	204	132	242	182	190	2423
Changes of Bank	1957	315	157	121	239	174	216	212	161	72	207	157	301	1874
Deaths of pensioners	2793	255	266	196	263	246	266	248	310	247	353	274	293	2650

Payroll		April	May	June	July	August	September	October	November	December	January	February	March	YTD
Actual number paid	979,819	80,151	80,311	88,929	80,700	80,961	90,057	81,560	81,788	90,887	82,122	82,353	99,476	1,019,295

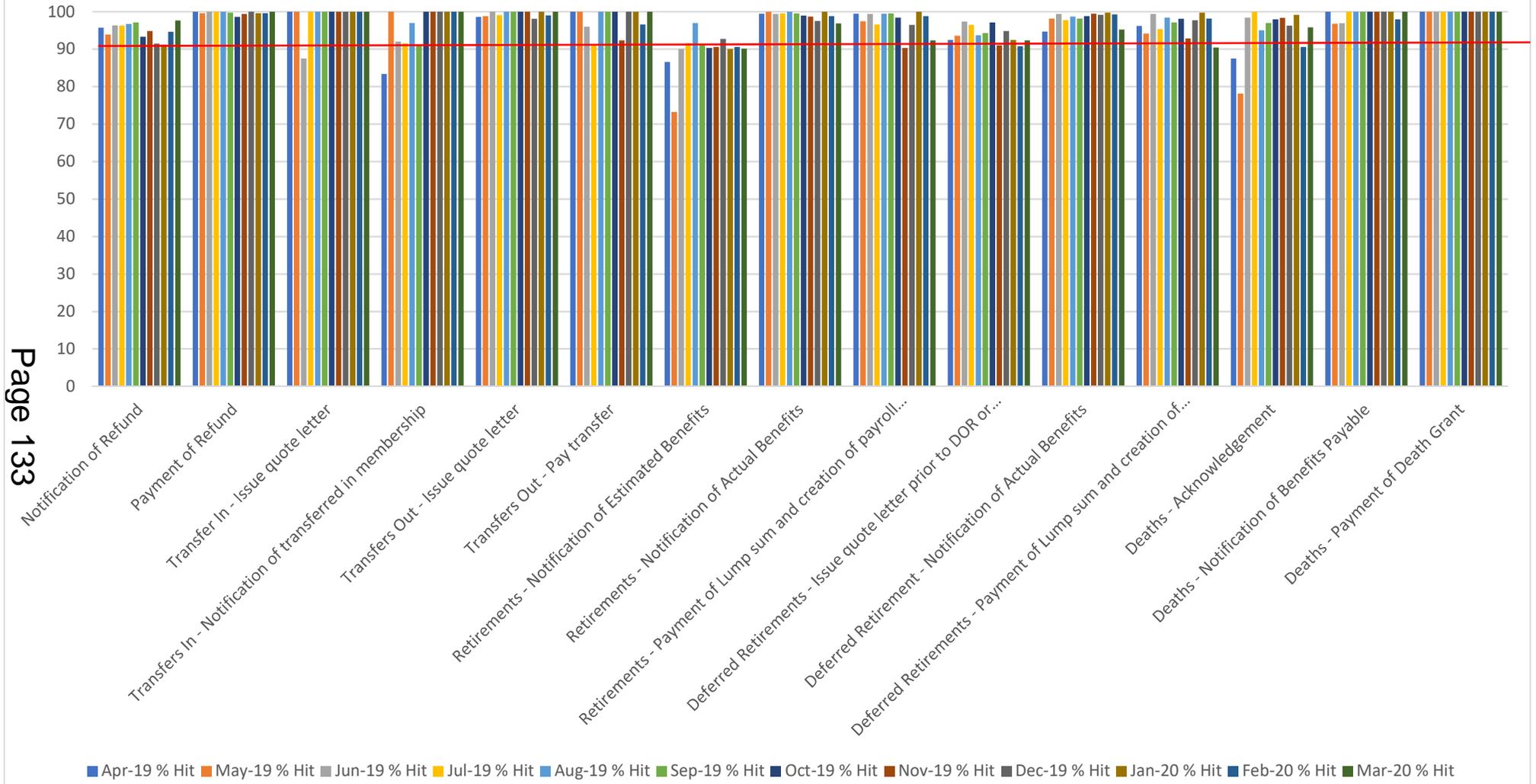
**To note:**

\*The decrease in the number of joiners processed in 2019/20 compared to 2018/19 is due to the transition to monthly submissions and the targetting or outstanding joiner data with employers in that year. 2019/20 represents a business as usual volume of processing

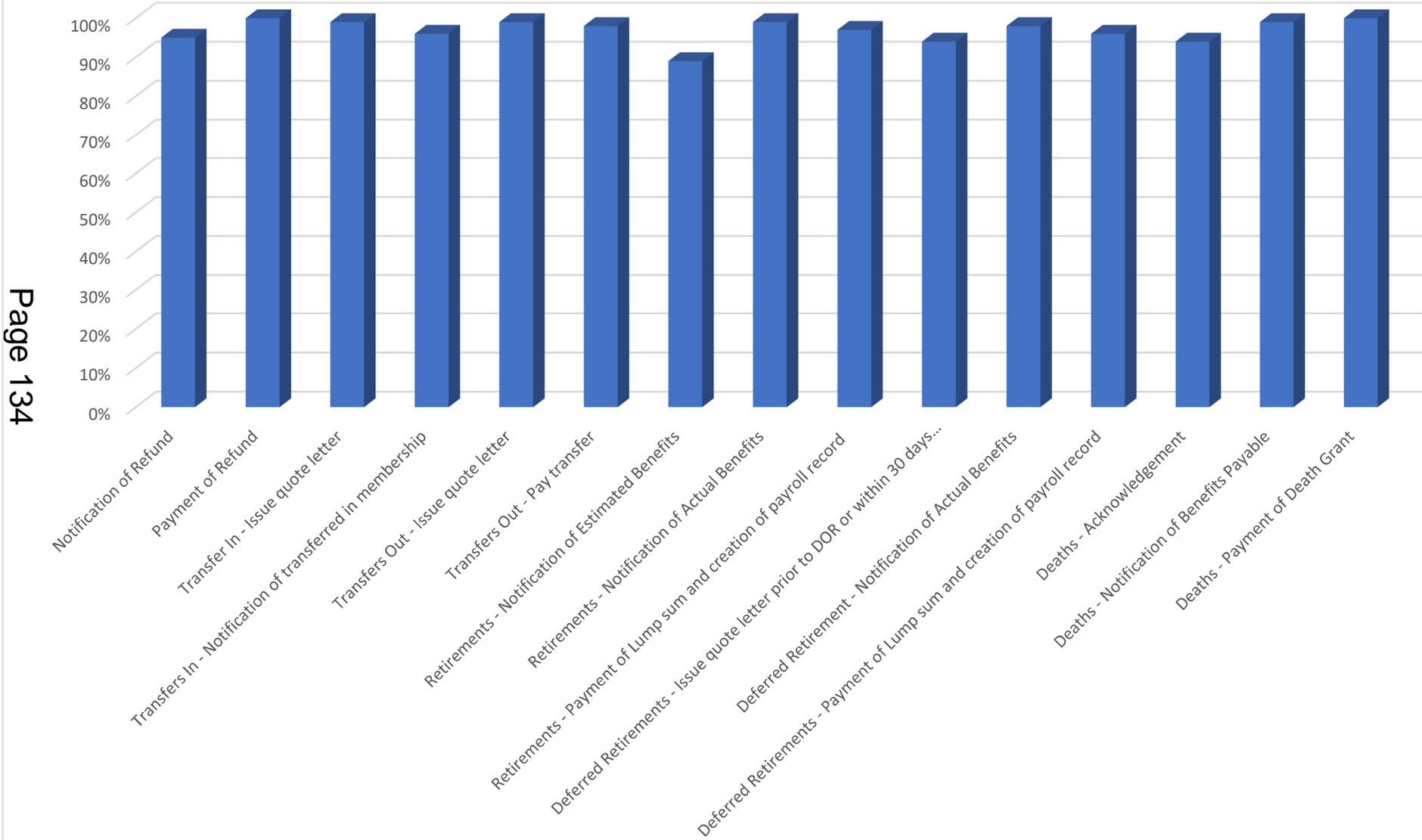
\*\*2019/20 saw a reduction in the number of deferment processes completed as the Fund has seen an increase in members rejoining requiring the amalgamation of records

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### Benefit Operations KPI's



### 2020 KPI performance





# ADMINISTERING AUTHORITY POLICY STATEMENT 2020 APRIL 2020



West Midlands Pension Fund

Under the LGPS Regulations, the Fund is required to formally publish its policy on “discretions”. Discretions is taken to include where the administering authority is required to carry out a task, but an element of choice is seen to exist as to how the task is completed. Unless stated otherwise the references to regulations are set out below with the following prefixes used throughout the draft.

- The Local Government Pension Scheme Regulations 2013 [prefix R]
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]
- The Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 as amended) [prefix B]
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- The Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

This document was reviewed and approved by Pension Committee in June 2020, effective date from June 2020. The next date for review is March 2021.

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#### ADMISSION OF ADMISSION BODIES [REGULATION R4, R3(5) RSch2]

The administering authority may make an admission agreement with any admission body. The administering authority can also make admission agreements with a Care Trust, NHS Scheme employing authority or Care Quality Commission. An admission agreement may take effect on a date before the date on which it is executed.

The Council will usually agree to an admission agreement with an admission body that is regarded as having a community of interest, provided it is satisfied about the long-term financial security of the body or it has a public sector guarantee. The administering authority will enter into an admission agreement with other admission bodies provided that any requirements it has set down are met. The Council may agree that the admission agreement may take effect on a date before the date on which it is executed.

---

#### RIGHT TO TERMINATE ADMISSION AGREEMENT [RSch2]

The administering authority has the right to terminate an admission agreement in prescribed circumstances. The Council shall retain the right to terminate an admission agreement in the event of:

- a) The insolvency, winding up or liquidation of the admission body,
- b) A material breach by the admission body of any of its obligations under the admission agreement or these Regulations which has not been remedied within a reasonable time, or
- c) A failure by the admission agreement to pay any sums due to the fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

---

### **EXIT PAYMENT [R64]**

The administering authority may suspend (by way of issuing a suspension notice) for up to three years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.

Where an intention to allow new members to join the scheme is identified, the Council may allow the employer up to six months to admit such members.

---

### **ADDITIONAL PENSION CONTRIBUTIONS [R16]**

The administering authority may turn down a request to pay an additional pension contribution (APC) or shared-cost additional pension contribution (SCAPC) over a period of time where it would be impractical to allow such a request. The member would still be able to pay via a single lump-sum payment.

Due to the administration costs involved requests to pay additional pension contributions or shared-cost additional pension contributions over a period of time in order to address an absence from work of less than ten working days will be refused unless there are exceptional circumstances.

---

### **MEDICAL EXAMINATION REQUIRED FOR PURCHASE OF APC/SCAPC [R16]**

The administering authority may require the member to undergo a medical at their own expense and may refuse an application if the authority is not satisfied that the member is in reasonably good health.

The Council will require that a member provides satisfactory medical evidence to ensure they can be reasonably expected to complete the contract undertaken and will not retire due to a pre-existing medical condition on health grounds. No medical shall be required if the member is paying for the additional pension by means of a lump-sum payment.

---

### **PAYMENT OF ADDITIONAL VOLUNTARY CONTRIBUTIONS ON THE DEATH OF A MEMBER [R17]**

The administering authority shall decide to whom to pay any AVC monies, including life assurance monies are to be paid to on death of a member.

The Council will decide based on the individual circumstances of the case, who should receive payment of the monies having regard to that it should be paid to or for the benefit of the member's nominee, personal representative or any person appearing to the authority to have been a relative or dependent of the member.

---

### **PROVISION OF ESTIMATES IN RELATION TO TRANSFERS OF AVCS/FSAVCS [TP15 AND A28]**

The administering authority may charge a member for providing an estimate of additional pension that would result from a transfer of in house AVC/SCAVC contributions.

Members may request a quote free of charge. In the exceptional case an additional request is made, the Council reserve the right to charge.

---

## **PENSION ACCOUNTS [R22]**

A pension account may be kept in any form that the administering authority considers appropriate.

The Council will decide the form in which pension accounts are kept based upon any published information or best practice and in an efficient manner.

---

## **CONCURRENT EMPLOYMENT AND THE ABSENCE OF AN ELECTION FORM [TP10]**

The administering authority shall decide in the absence of an election form from the member within 12 months of ceasing a concurrent employment, and where there is more than one ongoing employment which on going employment the benefits from the concurrent employment should be aggregated with.

The one with the longest likely lifespan or the ongoing employment that is most similar to the one that has ceased will be selected.

---

## **RETIREMENT BENEFITS [R30]**

The administering authority, in cases where the current employer or the former employer has ceased to be a scheme employer, may consent to waive, in whole or in part the actuarial reduction where the member voluntarily draws their pension before normal pension age.

The administering authority may also in cases where the current employer or the former employer has ceased to be a scheme employer may consent to waive, in whole or in part the actuarial reduction on benefits paid on flexible retirement. Where a request is received, it will be considered on an individual basis and on its own merit. However, where there is a cost as this cost will have to be spread across all employers the cost has to be justified.

---

## **STRAIN ON THE FUND [R68]**

The administering authority may require an employer who allows a member to retire by reason of flexible retirement, redundancy or business efficiency to pay the additional charge on the fund. This also includes the cost where the employer has chosen to waive any reduction on flexible retirement or where the member voluntarily draws benefits before normal retirement age.

The Council will require an employer to make the appropriate payment to meet the additional charge where the member has retired early through flexible retirement, redundancy, business efficiency or where the employer has exercised their discretion to waive any reduction as a result of flexible retirement or voluntary retirement.

---

### **SWITCHING ON THE RULE OF 85 [TP Sch 2]**

In cases where the current employer or former employer has ceased to exist, the administering authority may consent to switch on the 85-year rule where the member is voluntarily drawing benefits on or after age 55 and before age 60.

Where a request is received it will be considered on an individual basis and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers the cost has to be justified.

---

### **WAIVING THE REDUCTION [TP Sch 2 & B30]**

In cases where the current employer or former employer has ceased to exist, the administering authority may consent to waive any actuarial reduction on the benefits on pre- and/or post-April 2014 benefits.

Where a request is received, it will be considered on an individual basis and on its own merit. However, where there is a cost as this cost will have to be spread across all employers the cost has to be justified.

---

### **STRAIN ON THE FUND [TP SCH 2]**

The administering authority may require an employer to pay any additional costs as a result of the employer waiving the reduction in cases where the employer has consented to the early payment of on benefits before age 60 under Benefit Regulation 30.

The Council will normally require the employer to make the additional payment to meet any additional cost.

---

### **EXTENSION OF THE TIME LIMIT TO DRAW BENEFITS [R32]**

The administering authority shall decide whether to extend the time limits in which a member must give notice of their wish to draw their benefits before normal retirement age or upon flexible retirement.

Where a request is received asking for the time limit to be extended, the individual circumstances will be considered on whether it is appropriate to extend the time limit.

---

### **COMMUTATION OF SMALL PENSIONS [R34, B39, T14, R39]**

The administering authority may commute a small pension into a single lump sum.

The administering authority will commute small pensions when a member has made a request.

---

### **INDEPENDENT REGISTERED MEDICAL PRACTITIONER – APPROVAL [R36 & A56]**

The administering authority shall approve the choice of the medical practitioner used by the employer for ill-health retirement.

A medical practitioner who is registered with the General Medical Council and who has the appropriate qualifications specified in the regulations will be approved.

---

### **CERTIFICATE PRODUCED BY AN IRMP UNDER THE 2008 SCHEME [TP12]**

In cases where the employer or the former employer has ceased to exist to be a scheme employer, the administering authority can use a certificate produced by an IRMP under the 2008 scheme to make a determination under the 2014 scheme.

The certificate will be allowed except in circumstances of a particular case the certificate is not compliant with the requirements of the 2014 scheme.

---

### **EARLY PAYMENT ON ILL-HEALTH GROUNDS - DEFERRED MEMBER [R38]**

In cases where the employer or the former employer has ceased to exist to be a scheme employer, the administering authority shall decide whether the deferred member meets the criteria of being permanently incapable of carrying out their former job and are unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years whichever is sooner.

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the independent registered medical practitioner.

---

### **EARLY PAYMENT ON ILL HEALTH GROUNDS – DEFERRED PENSIONER MEMBER [R38]**

In cases where the employer or the former employer has ceased to be a scheme employer, the administering authority can decide whether a deferred pensioner is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the independent registered medical practitioner.

---

### **PAYMENT OF THE DEATH GRANT [R40, R43, R46, TP17 & B23, B32, B35, TSCH & LI55]**

The administering authority has absolute discretion in determining the recipients of any death grant payable from the scheme.

Normally the death grant will be paid to the nominated beneficiary or the death grant could be paid to the estate of the deceased. Where either or both of these options are seen to be inappropriate or impossible, the Council shall exercise its absolute discretion in as to who should receive the death grant.

---

### **NO DOUBLE ENTITLEMENT - BENEFITS DUE UNDER TWO OR MORE REGULATIONS [R49 & B42]**

The administering authority may decide in the absence of an election form from a member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations for the same period of scheme membership.

The member would be notified of the payment of the benefit that would provide the highest level of payment.

---

### ADMISSION AGREEMENT FUNDS [R54]

The administering authority may establish an admission agreement fund.

The Council has chosen not to set up an admission agreement fund.

---

### GOVERNANCE COMPLIANCE STATEMENT [R55]

The administering authority must prepare a governance policy stating whether the administering authority delegates its functions or part of its functions in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority, and if they do so delegate, state:

- the terms, structure and operational procedures of the delegation;
- the frequency of any committee or sub-committee meetings; and
- whether representatives of employing authorities or members are included and if so whether they have voting rights.

The policy must also state:

- the extent to which a delegation, or the absence of a delegation, complies with Secretary of State guidance and to the extent it does not so comply, state the reasons for not complying; and
- the terms, structure and operational procedures appertaining to the Local Pensions Board.

The Governance Compliance Statement will be prepared, maintained and published. A copy will be made available on our website [www.wmpfonline.com](http://www.wmpfonline.com)

---

### FUNDING STRATEGY STATEMENT [R58]

The administering authority must after appropriate consultation prepare maintain and publish a statement setting out its funding strategy. The statement has to be published no later than 31 March 2015.

The Funding Strategy Statement is prepared, maintained and published annually. A copy is available on our website [www.wmpfonline.com](http://www.wmpfonline.com)

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### PENSION ADMINISTRATION STRATEGY [R59]

The administering authority may prepare and publish a pension administration policy and the matters it should include.

The administering authority will publish a Pension Administration Strategy after consultation and it will be kept under review. A copy is available on our website [www.wmpfonline.com](http://www.wmpfonline.com)

---

## COMMUNICATIONS POLICY [R61]

The administering authority must prepare and publish its communication policy. It must set out its policy concerning communication with members, representatives of members, prospective members and scheme employers, as well as the format, frequency and method of communications, and the promotion of the scheme to prospective members and their employers.

The administering authority publishes and maintains a communications policy, a copy of which will be made available on our website [www.wmpfonline.com](http://www.wmpfonline.com)

---

## REVISION OF EMPLOYER'S CONTRIBUTION RATE [R64]

The administering authority may obtain from the actuary, a certificate revising the employer contribution rate, if there are circumstances which make it likely a scheme employer will become an exiting employer.

A revised additional rate and adjustments certificates regarding employer contributions will be obtained where it appears to be appropriate.

---

## AGGREGATE SCHEME COSTS – REVISED CERTIFICATES [R65]

The administering authority may obtain a new rates and adjustments certificate if the Secretary of State amends the regulations as part of the "cost sharing" arrangements.

A new rates and adjustments certificate will be obtained where it appears to be appropriate.

---

## EMPLOYER CONTRIBUTIONS – DATES FOR PAYMENT [R69]

The administering authority shall decide on the dates which contributions are to be paid over to the Fund.

All contributions (apart from additional voluntary contributions) should be credited to the Fund without delay by the 19th of the month following the month in which they fall due.

---

## INFORMATION PROVIDED BY EMPLOYERS ABOUT CONTRIBUTIONS – FREQUENCY AND FORMAT [R69, TP23, 22 & R80]

The administering authority shall decide on the form and frequency of the information to accompany payments to the Fund.

The administering authority will provide to employers the specified formats that employers are to use for the submission of their data, which is to be provided monthly, in line with the payment of contributions. A notification will be issued each year to inform employers of the deadline to submit this data along with any format changes that will be required. The Fund requires this data to be submitted to them no later than 30 April.

---

### **NOTICE TO RECOVER COSTS DUE TO EMPLOYER'S PERFORMANCE [R70]**

The administering authority will decide to issue the employer with a notice to recover additional costs incurred as a result of the employer's level of performance.

As detailed in the Pension Administration Strategy, the Council will review from time to time whether to issue an employer with notice to recover additional costs incurred as a result of the employer's level of performance.

---

### **EMPLOYER PAYMENTS – INTEREST ON OVERDUE PAYMENTS [R71]**

The administering authority may charge interest on payments by employers which are overdue.

The Council reserves the regulatory prescribed right to require interest to be paid when payments are overdue by more than one month. Interest must be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three monthly rests.

---

### **PROCEDURE TO BE FOLLOWED WHEN EXERCISING STAGE 2 DISPUTE FUNCTIONS AND THE MANNER IN WHICH THOSE FUNCTIONS ARE TO BE EXERCISED. [R76, A60, TP23 & R76]**

The administering authority will decide how it will exercise its stage two dispute procedure and the procedure to be followed.

The review would be undertaken by a person not involved in the first stage decision and by a person appointed to deal with disputes referred to it under stage 2. The Council will ensure suitable procedures are in place.

---

### **APPEAL TO THE SECRETARY OF STATE AGAINST EMPLOYER DECISION [R79 & A63]**

The administering authority may appeal to the Secretary of State against an employer decision or lack of an employer decision.

The Council will appeal to the Secretary of State if it believes an employer has made (or failed to make) a decision that is both wrong in law and material and where we have been unable to persuade the employer to alter its actions or inactions.

---

### **EXCHANGE OF INFORMATION [R80, TP22, 23]**

The administering authority shall specify the information to be supplied by employers to enable the administering authority to discharge its function.

The Council will specify the information that is to be supplied by employers having regard to the regulatory requirements and best practice.

---

### **MAKING PAYMENTS IN RESPECT OF DECEASED PERSON WITHOUT PROBATE/LETTERS OF ADMINISTRATION [R82 & A52]**

The administering authority may pay the whole or part of the amount due from the Fund to the personal representatives or any person appearing to be beneficially entitled to the estate without the production of probate or letters of administration where the amounts due are less the amount specified in section 6 of the Administration of Estates (Small Payments) Act 1965.

Payment will normally be made without the production of probate or letters of administration where the amount is below the specified amount.

---

### **PAYMENTS FOR PERSONS INCAPABLE OF MANAGING THEIR AFFAIRS [R83, A52 & B27]**

The administering authority may decide where a person (other than an eligible child) appears incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person to be applied for the benefit of the member.

Where in the Council's opinion a member is unable to manage their own affairs, then having considered the individual circumstances of the particular case they may decide to pay some or all of the benefits to someone else to be applied for the benefit of the member.

---

### **DATE TO WHICH BENEFITS SHOWN ON ANNUAL BENEFIT STATEMENT ARE CALCULATED [R89]**

The administering authority will decide the date to which benefits shown on the annual benefit statement are calculated.

The date will be selected in line with regulatory requirement and best practice.

---

### **BULK TRANSFER (TRANSFER OF UNDERTAKINGS) [R98]**

The administering authority must agree any bulk transfer payment.

The terms of the bulk transfer will be discussed with the Fund's actuary, and once all parties are in agreement payment will be made.

---

### **TRANSFERS INTO THE FUND AND EXTENSION OF 12-MONTH TIME LIMIT [R100]**

The administering authority may accept a transfer value of pension rights into the Fund and may also extend the time limit of 12 months from the date the member first became an active member in their current employment.

The Council will accept a transfer value where a request is made. The Council will only agree to extend the time limit where the appropriate employer has agreed to extend the time limit.

---

### **FINAL PAY REDUCTIONS [TP3, 4, 8, 10, 17 & B10]**

The administering authority will decide whether to use an average of three years pay for final pay purposes where the member has died before making an election.

The pay figure which provides the highest overall level of benefits will be selected.

---

### **PERMANENT REDUCTIONS IN PAY - CERTIFICATES OF PROTECTION [TP3, 4, 8, 10, 17, TSch1 & L23]**

The administering authority will decide for a member who has a certificate of protection who has died before making an election which pay figure should be used for final pay purposes.

The pay figure which provides the highest overall level of benefits will be selected.

---

### **ELIGIBLE CHILD – IGNORING BREAKS IN EDUCATION OR TRAINING [RSch1 & TP17]**

The administering authority may treat a child as being in continuous educational or vocational training despite a break.

The Council will accept short breaks and also gap years as being breaks in education and will restart a suspended child's pension at the end of such a break or gap.

---

### **FINANCIAL DEPENDENCE /INTERDEPENDENCE OF COHABITING PARTNER [RSch1 & TP17]**

The administering authority will decide upon the evidence required to determine the financial dependence or financial interdependence of the cohabiting partner and the scheme member.

The Council will provide details of the evidence required taking account of any guidance provided.

---

### **ABATEMENT OF PRE-1 APRIL 2014 PENSION [TP & A70]**

The administering authority shall decide whether and how to abate the pre-1 April 2014 pension element following re-employment of a scheme pensioner by a local government employer.

In the event of a scheme pensioner obtaining further employment with a scheme employer the pension will not be abated. The Fund resolved from 1 September 2006 not to abate pension on re-employment.

---

### **EXTENSION OF TIME PERIOD FOR CAPITALISATION OF ADDED YEARS CONTRACT [TP15, TSch1 & L83(5)]**

The administering authority may extend the time allowed to a member who has an added years contract and who is made redundant to decide whether to pay a capital payment.

The Council will apply the prescribed three month time limit, unless there are individual circumstances which need to be considered in deciding whether to grant an extension of the time limit.

---

### **RECOVERY OF UNPAID EMPLOYEE CONTRIBUTIONS AS DEBT/ FROM BENEFITS [A45]**

The administering authority may recover any outstanding employee contributions as a debt or as a deduction from the benefits.

The Council will, where practical deduct any unpaid employee contributions from the benefits relating to the membership to which the unpaid contributions relate.

---

### **CONSENT FOR EARLY PAYMENT AND WAIVING OF REDUCTION [B30 & TPSCH]**

Where the former employer has ceased to be a scheme employer, the administering authority may consent to waive the reduction for the payment of deferred benefits on compassionate grounds.

Where a request is received it will be considered individually and on its own merit. However, where there is a cost as this cost will have to be spread across all employers the cost has to be justifiable.

---

### **'SWITCH ON' THE 85-YEAR RULE FOR A PENSIONER MEMBER WITH DEFERRED BENEFITS**

Where the former employer has ceased to be a scheme employer, the administering authority may consent to 'switch on' the 85-year rule for a pensioner member with deferred benefits voluntarily drawing benefits.

The Council would not normally 'switch on' the 85-year rule.

---

### **APPLICATION FOR EARLY PAYMENT OF A SUSPENDED TIER 3 ILL HEALTH PENSION AND WAIVING REDUCTION [B30]**

The administering authority may consent to the request for the early payment of pension for a member, who left with a tier 3 ill-health pension that is suspended and who now is aged between 55 and 60 where the former employer has ceased to be a scheme employer. The administering authority may also waive any reduction.

Where a request is received, it will be considered individually and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers the cost has to be justifiable.

---

## REQUEST FOR EARLY PAYMENT OF DEFERRED BENEFITS ON ILL-HEALTH GROUNDS [B31]

The administering authority may decide to agree to a request from a deferred member for early payment of benefits on ill-health grounds where the former employer has ceased to exist.

The Council will obtain an opinion from an IRMP as to whether as the member meets the criteria of permanent ill health and reduced likelihood of gainful employment.

---

## SPOUSES' PENSIONS ARISING UNDER THE 1995 REGULATIONS PAYABLE FOR LIFE

The administering authority shall decide to pay spouse's pensions for life for pre-1 April 1998 retirees/pre-1 April 1998 deferreds who die on or after 1 April 1998, rather than ceasing the pension during any period of marriage or cohabitation.

The Council has deemed that any spouses' pension that comes into payment is payable for life. This does not apply to spouses' pensions that ceased prior to 1 April 1998.

### Data Protection

To protect any personal information held on computer, the City of Wolverhampton Council is registered under the Data Protection Act 2018. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the Fund's Data Protection Officer via email at [wmpfdataprotectionofficer@wolverhampton.gov.uk](mailto:wmpfdataprotectionofficer@wolverhampton.gov.uk)

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

Information produced by the Fund can be made available in several formats including large sight text, Braille and several community languages. If you have any special requirements or would like to speak face to face with a member of staff, please contact us to arrange how we may best meet your needs. Please remember that special requirements may take a little longer than normal to organise, but you have our assurance that we will do our best to ensure you receive the information in the most appropriate and efficient manner possible.

West Midlands Pension Fund  
PO Box 3948  
Wolverhampton  
WV1 1XP

Customer Services: 0300 111 1665  
Email: [pensionfundenquiries@wolverhampton.gov.uk](mailto:pensionfundenquiries@wolverhampton.gov.uk)  
Web: [www.wmpfonline.com](http://www.wmpfonline.com)  
Pensions Portal: [www.wmpfonline.com/pensionsportal](http://www.wmpfonline.com/pensionsportal)

Lines open during the following times:  
8:30am to 5.00pm Monday - Thursday  
8:30am to 4.30pm Friday.  
Calls may be monitored for training purposes.

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report title</b>	Data Management Report	
<b>Originating service</b>	Pensions Services – Governance	
<b>Accountable employee</b>	Rachel Howe	Head of Governance
	Tel	01902552091
	Email	<a href="mailto:Rachel.Howe@wolverhampton.gov.uk">Rachel.Howe@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
	Tel	01902551715
	Email	<a href="mailto:Rachel.Brothwood@wolverhampton.gov.uk">Rachel.Brothwood@wolverhampton.gov.uk</a>

---

**Recommendations for noting:**

The Board is asked to note:

1. The Data Management Strategy updated for 2020.
2. The ongoing work of the Fund to manage, monitor and effect good data management.

## **1.0 Purpose**

- 1.1 To note the Fund's Data Management Strategy and to provide an update on the work of the Fund in delivering good data management in line with statutory requirements.

## **2.0 Background**

- 2.1 All Local Government Pension Schemes collect and hold records about scheme members' identities, personal data, pay and their time in the scheme in order to calculate and pay out pension benefits. Record keeping is a vital part of running a scheme and failure to maintain complete and accurate records means the Fund is at risk of failing to meet its legal obligations. Crucially, it can affect the Fund's ability to complete basic functions such as paying members the right amount at the right time and issuing annual benefit statements as required under the Local Government Pension Scheme Regulations. The Fund adopted its first Data Management Strategy in March 2019.
- 2.2 The overriding purpose of good data management is to set out the Fund's commitment to improving the service it provides to Fund Members thus ensuring:
- Members get the right benefits at the right time and
  - Actuarial valuations accurately reflect pension benefit obligations and funding requirements for the Fund's employers when reviewing contribution rates.

## **3.0 Data Management Strategy**

- 3.1 To ensure compliance with statutory responsibilities, and to ensure the Fund achieves the overriding purpose of good data management, it has produced its Data Management Strategy outlining the actions, controls and measures it has in place to achieve good management.
- 3.2 Good data governance has been a key focus for the Scheme Advisory Board (SAB) and the Pensions Regulator (tPR), noting the role of data in ensuring the delivery of accurate and timely pension benefit information to members and the Fund has sought to respond to this focus through a number of data management initiatives launched since the adoption of the first strategy in June 2019.
- 3.3 Over the last 12 months the Fund has commenced a number of initiatives which support good data management which help to achieve the overall objectives of the data management strategy.
- 3.4 System developments
- 3.4.1 During the last quarter of 2019, work was initiated to review and test data held on the system, in advance of the implementation of increased levels of automation and bulk processing. This work took a sample of early leaver data and analysed it against key data requirements, including the tPR's common and scheme specific requirements and data irregularities with the members record, to identify any anomalies and potential issues causing the casework to not be processed.

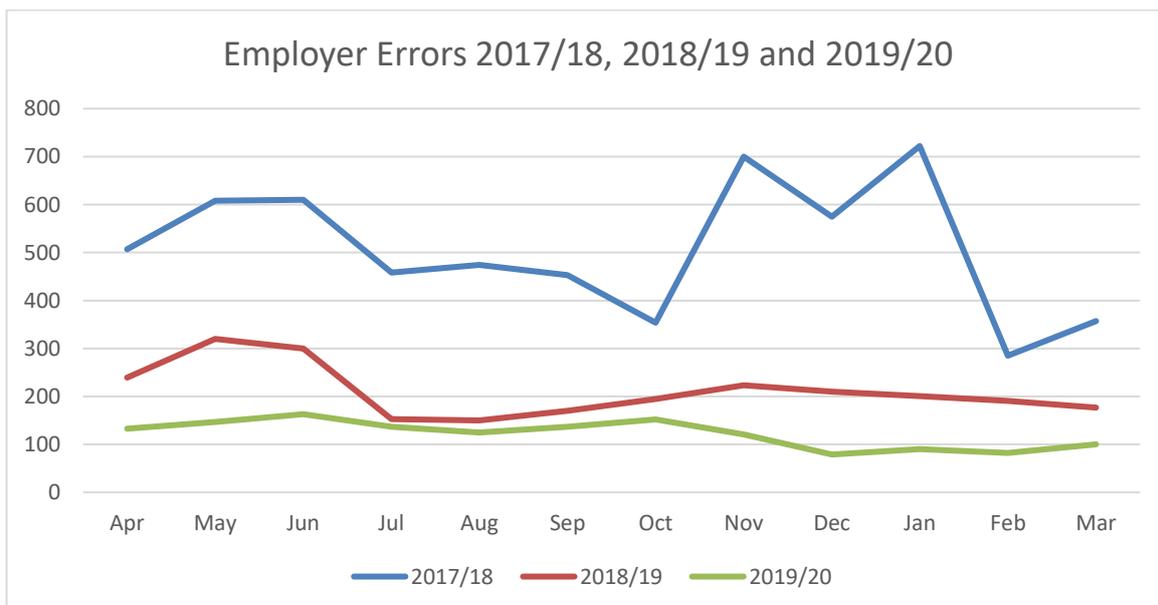
3.4.2 To support with assessing the quality of data received from employers the Fund has been developing and testing functionality which will enable queries with data to be raised with employers via the web portal with the process being sent to the employers' web-tray for action. This development will support the flow of information and assist in monitoring queries and resolution, providing insight and trend analysis for the development of employer communications and coaching material and supporting faster resolution. Work is underway to schedule the transition of this functionality into the live environment over the coming months.

3.4.3 In addition, development of the mortality and deferred member tracing programme has helped the Fund achieve its aim of paying member benefits when they fall due through actively identifying those members and their beneficiaries who may be entitled to death benefits, as well as tracing those members for who the Fund may have lost contact due to leaving employment, enabling early communication on their pension benefits following the change in regulation last year, enabling some members to access their benefits from age 55.

### 3.5 Ensuring correct data

3.5.1 Throughout 2019 the Fund enhanced its understanding of data through initiatives such as monthly submissions, scheme-specific data reporting and detailed analysis of the reasons for non-production of ABS.

3.5.2 Analysing the performance of data in monthly submissions has enabled the Fund to engage with employers on the reasons for data errors and amend validations in its monthly upload process. This has facilitated improved data quality year-on-year with the error reduction rate improving by 42% compared to the same time last year, a key factor in enabling the production of annual benefit statements.



3.5.3 Following detailed analysis of the reasons for non-production the Fund has been able to maximise production of benefit statements, correctly identify a member's status, and facilitated the creation of data improvement plans to employers with guidance for

rectification. This work saw the improved delivery of statements by year end from 85% on first run to 95%.

### 3.6 Collaborative approach

3.6.1 The development, and success, of these initiatives has been facilitated by the Fund-wide approach to managing data in line with the data management strategy. Early reporting of data errors or queries by the processing teams has enabled early assessment and identification of issues by the Fund's subject experts, effecting action plans delivered by both the Fund and its stakeholders in the rectification and management of data.

3.6.2 Oversight on this delivery has come from a group of senior officers across the Operations, Data, Systems and Employer Services Team, which has expediated resolutions through the collective understanding of impact on both the Fund and its Employers with the consideration of impact and data risk being a key component in the assessment of priority for engagement and rectification.

3.7 Moving into 2020/2021 and in consideration of the Challenges and Drivers for change identified in the Fund's Service Plan (the evolving Fund membership, employer base, the cycle of actuarial valuations, developing standards and the increased complexities in the scheme following benefit change), together with the learning from the above initiatives undertaken this year, means the strategy needs to adapt and be responsive to change, meeting new requirements and priorities, while retaining the ability to monitor continued and progressive steps to managing data quality.

3.8 The strategy has therefore been reviewed and refreshed to take into account the changing environment in which we operate and the service development initiatives undertaken by the Fund throughout the year. A copy of the 2020 strategy which was approved by the Pensions Committee on 17 June 2020 is attached at Appendix A.

### 4.0 Preparation for Annual Benefit Statements (ABS) 2020

4.1 In considering the current global crisis the Pensions Regulator recently issued guidance to pension funds highlighting their priority areas of focus during this time of uncertainty and confirmed that the delivery of ABS was a second stage priority after the payment of pension benefits and the management of data. It is anticipated that the Regulator will not take enforcement action against those Funds who fail to deliver statements by 31 August deadline where appropriate reasoning can be found and may extend their monitoring of delivery of ABS by 3 months to allow Funds the opportunity to manage resource in an appropriate way that ensures pension benefits are paid.

4.2 For WMPF, the production of ABS remains a key priority and it has recommenced its annual project to deliver annual benefit statements to members by 31 August 2020 (at no detriment to the priority of paying member benefits).

4.3 Committee will recall that last year the Fund self-reported to tPR its production of ABS and engaged with them on the steps and actions taken to improve production through its rolling programme. Following that engagement it was confirmed by tPR that no further

action would be taken against the Fund, noting the marked improvement in statement delivery. This year, the Fund has continued to undertake detailed analysis of the reasons for non-production ABS in 2019, noting those members for whom the Fund was unable to produce statement, now fall into very complex data analysis with, in some cases reasons for non-production linked to data received over a number of years with some crossing a series of employments and employers. This has meant that the rectification of those errors has been slow with limited numbers likely to be rectified in advance of the 2020 ABS run. The Fund continues to place focussed resource on this work and is aiming to action a similar, but reduced, rolling programme of production for 2020.

- 4.4 To assist production, the Fund will be issuing data improvement plans to employers in the lead up to the ABS run which will combine active member queries (seeking confirmation of leavers), with monthly submission feedback with the aim of cleansing as many queries as possible to assist in maximising production for members.
- 4.5 It is positive and encouraging that the monthly submissions process appears to be assisting in the production of ABS through the continual reduction in errors at first point of data load from employers, however the Fund is cautious in relating that to increased production of ABS as there are a number of factors (not linked to monthly submissions) which may cause non-production of ABS. The Fund will continue to update the Pensions Committee and Local Pensions Board of progress in this area.

## **5.0 McCloud data requirements**

- 5.1 The case concerns the transitional protections given to scheme members, who in 2012, when scheme changes were proposed, were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pensions reform. Tapered protections were provided for those 3-4 years younger. On 20 December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and that the protections should apply to all.
- 5.2 Since the Court of Appeal decision, LGPS Funds and national bodies such as the LGA and SAB have worked collectively to understand and identify potential remedies for members who retired post 2012 (and who will have been unprotected at the time of retirement).
- 5.3 The LGPS Scheme Advisory Board has committed to ensure that the necessary changes to the LGPS Scheme are made so that all members automatically receive the protection they are due. Changes to the Scheme will be backdated to April 2014 and will apply to qualifying members who left the LGPS after that date. Implementing and communicating the changes will be extremely challenging and as such SAB have set up an implementation group to assist LGPS administering authorities and employers with this challenge. The implementation group is made up of a variety of MHCLG, GAD and LGA representatives, unions, advisers, software providers and practitioners (LGPS funds). West Midlands Pension Fund is represented by Simon Taylor, Head of Pensions, in his role as 'Metropolitan Fund' representative.

A MHCLG consultation on implementation of McCloud changes in the LGPS is currently expected during July 2020 and will last for 12 weeks

- 5.4 There are a number of potential challenges that will come with any proposed remedy. Most notably in relation to data, where employers and pension funds will need to identify and remedy member data to enable remedy of pension benefits, and also in relation to Funding, where allowances made within the 2019 actuarial valuation will be tested against the cost of remedy once known. System developments to support and record additional data and revised pensions, together with member communications are expected to be significant workstreams. The Fund continues to engage with its employers on the developments of this case.

## **6.0 Financial implications**

- 6.1 There are no direct financial implications outlined in the report, however, failure by the Fund to meet statutory requirements could result in a fine from the Pensions Regulator.
- 6.2 Poor data quality has the potential to impact the Fund's setting of contribution rates as part of the 2019 actuarial valuation. Its ability to assess its liabilities is key to the assessment of Fund's funding level and the setting of employer contribution rates.
- 6.3 Overriding all duties is the ability of the Fund to pay accurate and timely pension benefits to its members, poor quality of data may result in incorrect payments and/or delays to member finances.

## **7.0 Legal implications**

- 7.1 The Fund has a statutory duty to provide Annual Benefit Statements to members, failure to produce statements could result in enforcement action from the Regulator.

## **8.0 Equalities implications**

- 8.1 The Fund's Data improvement strategy has been assessed under the Equality Impact Assessment, no implications were identified.

## **9.0 Environmental implications**

- 9.1 There are no environmental implications.

## **10.0 Human resources implications**

- 10.1 There are no human resources implications.

**11.0 Corporate landlord implications**

11.1 There are no corporate landlord implications.

**12.0 Appendices**

12.1 Appendix One - Data Management Strategy 2020

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# DATA MANAGEMENT STRATEGY JUNE 2020



West Midlands Pension Fund

## 1 INTRODUCTION

The West Midlands Pension Fund is one of the largest local government pension funds in the UK and manages the pension records of over 330,000 members. The Fund is not a legal entity in its own right – it sits as a function of the City of Wolverhampton Council who hold the capacity of administering authority and data controller.

The Council, and therefore the Fund, are bound by the obligations set out in the Public Service Pensions Act 2013 and associated legislation, including statutory guidance issued by the Scheme Advisory Board (SAB) and The Pensions Regulator (TPR).

In compliance with those obligations, the Fund is required to keep accurate records of member data that is necessary to perform its function as a Local Government Pension Scheme provider in paying pension benefits when they fall due, ensuring members are informed about their retirement benefits enabling them to take action to ensure a comfortable retirement.

This strategy is reviewed and adopted by the Fund's Pensions Committee on an annual basis. Its implementation and progress for improving data quality across the Fund is monitored quarterly.

## 2 PURPOSE

The purpose of this strategy is to provide a framework for ensuring data accuracy, effectively identifying areas for data improvement and to develop and monitor data action plans where further steps are needed to improve member data. It defines the Fund's responsibilities in relation to record keeping and data quality, providing assurance to our stakeholders that their data is managed in compliance with the statutory obligations placed upon the Fund.

The strategy provides the parameters for assessing areas for improvement based on risk analysis and impact assessment. Through effective risk management the Fund is able to mitigate the impact of poor data quality, put plans in place to reduce future impact and improve process efficiencies.

The overriding purpose of this strategy is to set out the Fund's commitment to improving the service it provides to Fund members thus ensuring:

- members get the right benefits at the right time; and
- actuarial valuations accurately reflect pension benefit obligations and funding requirements for the Fund's employers when reviewing contribution rates.

## 3 SCOPE

Good data management applies to all Officers, Pensions Committee Members, Local Pensions Board Members, contractors and partner agencies (including employers) who have a responsibility under the legislation to maintain or assist in the maintenance of accurate pension member records.

It applies to all data required by the Fund to administer the scheme and meet the TPR requirements for record keeping covering all types of member (active, deferred, pensioner (including beneficiary)) across all membership records and aims to improve both the current and historical data held by the Fund.

The Fund may hold information about deceased members or members who have transferred out of the West Midlands Pension Fund. This *Data Management Strategy* applies to their data also where the Fund has a statutory duty to pay beneficiary/spousal benefits and to provide statutory reconciliation of data such as GMP reconciliation.

#### 4 THE LEGAL BASIS

In line with the Pension Regulator's Code of Practice 14, Scheme Managers should review their data at least once a year and where assessed as necessary, put an improvement plan in place to address them. The improvement plan should clearly set out the steps to be taken to improve the quality of data held.

Failure to maintain accurate records can put the Fund, administering authority and its employers at risk of failing to meet their legal obligations to members which could result in The Pensions Regulator taking enforcement action to remedy and rectify inaccurate data. It could have a further financial impact if the Fund is unable to accurately assess its liabilities and set appropriate contribution rates in line with the Pensions Acts.

There is therefore both a legal and reputational risk to holding inaccurate or incomplete data. In conjunction with the legal requirement to hold accurate data, the Fund also has a legal duty under the Data Protection Act 2018 and General Data Protection Regulations (EU) to ensure it manages personal information in an appropriate way enabling individuals to access their information while providing assurance as to its security and appropriate use.

Underpinning the work that the Fund is doing to improve its data quality is the need to adhere to the Data Protection Act 2018 (to be read alongside the General Data Protection Regulation as directed by the European Union). The changes to data protection legislation provide more robust rights to the data subject (the member) in the way in which organisations collect, process and share their personal information.

The Fund complies with its duty to ensure that the principles of data protection and the individual rights of the member are not breached, especially considering the significant reputational and financial consequences should a serious data breach occur.

The Fund has acted to amend the required processes, such as the sharing of personal information to third-parties, to maintain confidence in the Fund's ability to manage our members' data appropriately and in line with statutory guidance.

Further information on the work of the Fund to adhere to data protection law can be found on our website [www.wmpfonline.com/dataprotection](http://www.wmpfonline.com/dataprotection)

The following aspects are worth highlighting in the relationship between improving data quality and adhering to GDPR:

- The introduction of monthly data submissions and the work that is being undertaken to cleanse historical data discrepancies ensures that the Fund meets the requirement that individuals' personal information should be kept accurate and up-to-date. The frequency of the monthly files received from employers and subsequently the feedback provided on outstanding current and historical data queries enables the Fund to continue to build confidence in its data quality.

- By ensuring high levels of data quality the Fund is prepared to react to requests for information from its members (subject access requests). It is able to provide back to the member information that is relevant, accurate and complete.
- The Fund is required to publish a privacy notice to outline how the Fund manages its members' data, including who it shares personal information with and for what purposes it may be used. This transparency places a responsibility on the Fund to ensure that its data is of high quality while giving assurance to the members that the third parties we engage with maintain the same standard of care of our members' data

For more information on the Fund's compliance with data protection, please visit [www.wmpfonline.com/informationgovernance](http://www.wmpfonline.com/informationgovernance)

## 5 RESPONSIBILITIES

In delivering this strategy the Fund has identified key owners for certain aspects of its delivery. These are set out as follows

Role	Responsibility
<b>Pensions Committee</b>	<p>As the decision-making body for the Fund, the Pensions Committee has ultimate responsibility for adhering to the legislation on managing and protecting data. This includes the responsibility for ensuring effective management processes are in place to ensure compliance.</p> <p>All members of the Pensions Committee are required to undergo data protection training and receive regular updates on the Fund's compliance with good data management.</p>
<b>Local Pensions Board</b>	<p>To monitor the delivery of this strategy and the activity taken to improve data quality where issues are identified. On a bi-annual basis, the Local Pensions Board will receive updates on the progress of the Fund's Data Management project with responsibility for ensuring focussed resource and delivery of improvements.</p> <p>All members of the Local Pensions Board are required to undergo data protection training.</p>
<b>Officers</b>	<p>As users of the Fund's data (in the processing of member benefits), officers have the responsibility to ensure the information they access is relevant, secure and used only for the purpose of providing pension benefits. Each individual officer is responsible for highlighting discrepancies in data, for raising queries where discrepancies are highlighted and for rectifying incorrect information on a member's record.</p> <p>All officers of the Pension Fund are required to undergo bespoke data protection training with the Fund's governance officer tailored to the level of access to data required by their individual role.</p>

Role	Responsibility
<b>Partner agencies (including employers)</b>	Are required to adhere to the Fund's <i>Pension Administration Strategy</i> which sets out data quality requirements and performance expectation in the delivery of member data to the Fund.
<b>Contractors</b>	Are required to adhere to the Fund's <i>Data Protection Policy</i> , including providing assurance of their own data management arrangements. Each contractor or third party is required to enter into a data sharing agreement with the Fund confirming the need for the sharing of data, the restrictions of use and confirmation by them of the safe and secure storage of data where it is passed for the performance of a service.

## 6 STRATEGY OBJECTIVES

The Fund has identified the following objectives which are supported through the delivery of our corporate strategies and policy framework.

- To improve member **experience** of the Fund providing accurate information at the right time to enable them to make informed decisions about their retirement options.
- To improve **efficiency** in the Fund's processes, including provision of benefit information and payments, keeping administrative costs manageable and meeting KPIs
- To increase **automation** in Fund processes and enable greater self-service in the context of increasing demand.
- To maintain employer **confidence** in the assessment of liabilities and the appropriateness of their contribution and recovery plans set for funding purposes.
- To enable the Fund to meet regulatory record keeping **standards**
- To ensure the Fund effectively **protects** personal data in line with legislative requirements, including GDPR
- To ensure **compliance** with code of practice including the recording and reporting breaches of law.

## 7 RISK MANAGEMENT

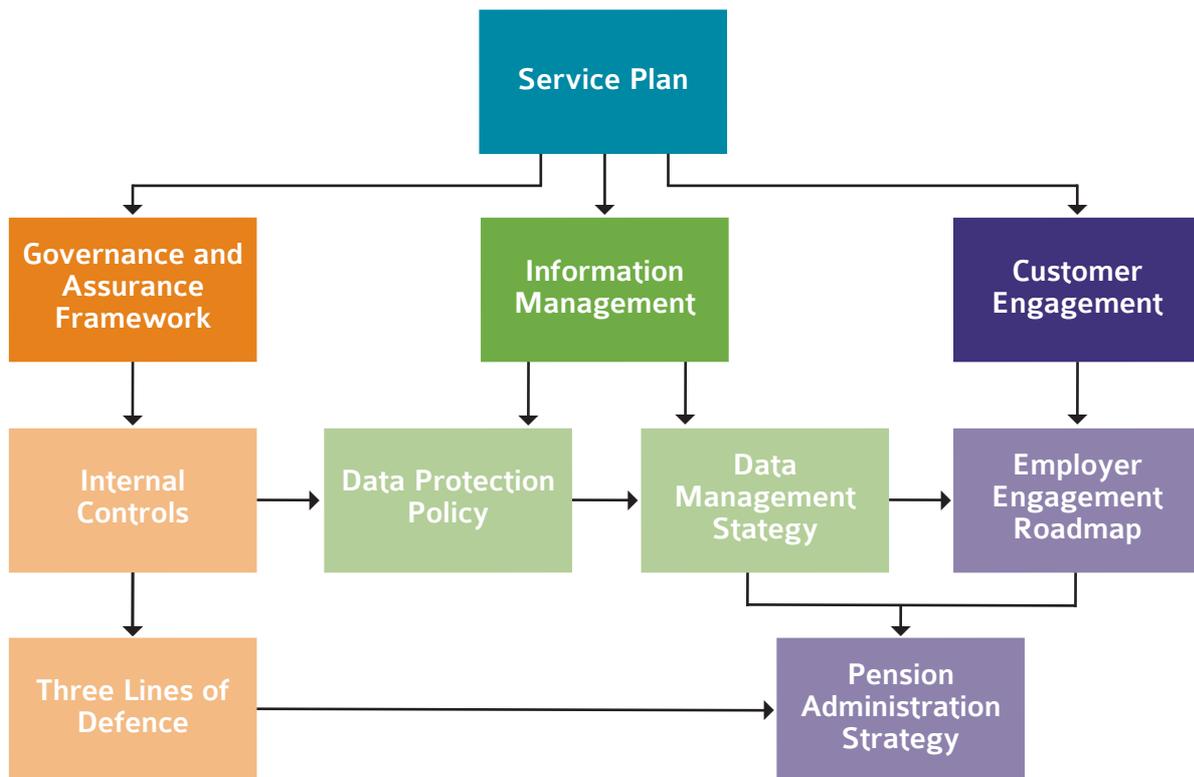
In setting the strategy objectives, the Fund has identified potential risks to its ability to achieve them, identifying and effecting controls which reduce the possible impact of those risks occurring thereby supporting the overall objective of ensuring good data management.

Risk	Controls	Rating
Growing complexity in LGPS scheme rules which change the requirements on the pension data required to pay benefits	The Fund's Senior Management Team participate in national groups sitting on a number of leading LGPS bodies helping to shape the future direction of the LGPS. Together with the Fund's specialist Technical team who engage with national groups to interpret and understand changes in legislation, placing it on the front foot to understand those changes, developing training and tools to colleagues as part of the people development framework.	
Growing diversity in employers and frequency in change of employers, leading to membership transfers creating potential gaps and data inconsistencies together with the ability of employers to comply with their statutory duties to provide accurate data and their failure to comply with the <i>Pension Administration Strategy</i> .	The Fund has an Employer Services team who regularly engage with employers through the employer engagement roadmap facilitating learning and coaching sessions to develop their understanding of their roles as scheme employers, including their duty to provide accurate and timely data.	
Enabling member self service and automation of reporting.	<p>The Fund has a focused digital transformation program with the aim of digitising more processes and making more information accessible online to members.</p> <p>In conjunction with the Member Services team developing online videos and webinars to support members in their understanding of pension information and data.</p> <p>All of which provide more visibility to members of the information we hold about them and therefore opportunity to rectify where necessary</p>	

As well as effective risk management, the Fund has a number of mechanisms which provide assurance as to its management of risk and which enable the Fund to be confident that the responses applied in the mitigation of risks are operating effectively.

The implementation and application of the assurance framework assists the Pensions Committee, Local Pensions Board and the Regulator’s confidence of the Fund’s management of risks and the promotion of good governance and accountability in its management of data.

**Assurance Framework**



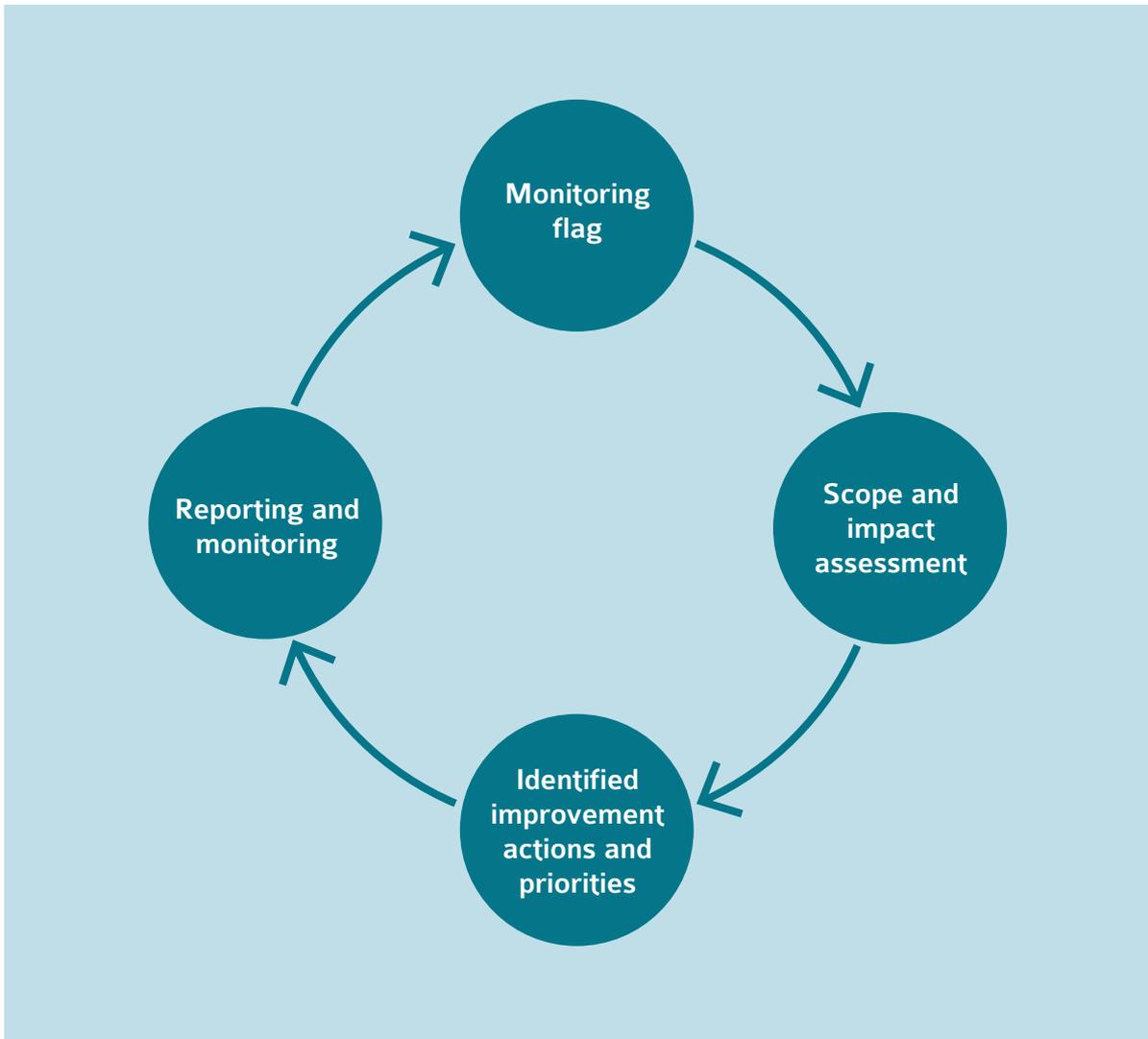
Further information can be found in the Fund’s <Governance and Assurance Framework>

## 8 STRATEGY IMPLEMENTATION

The Fund is able to report on and measure its data quality using the common and scheme-specific data reports developed by The Pensions Regulator and national bodies, working in conjunction with software providers. In addition, through regular reporting supported by the Fund's valuation data template, the monthly feedback to employers through the Fund's monthly submission program and the monitoring of its ability to produce annual benefit statements (and the reasons for non-production), the Fund has a number of output measures which accurately depict our overall data quality.

Through those measures the Fund is able to effect its *Pension Administration Strategy* and use its employer engagement roadmap to support good data management.

Through the tools available, the Fund can effectively **review** and **monitor** its data quality, taking action where necessary to **engage** with its customers about data.



## 9 OUTCOME INDICATORS

In monitoring the delivery of this strategy and the ongoing analysis of the Fund’s data quality, the Fund has identified key outcomes to be achieved from the effective implementation of data management projects.

These include:

- a greater understanding of the Fund’s data, its use across all service areas and its impact on service delivery;
- identified service development opportunities which lead to efficiencies in service delivery for key stakeholders;
- shared focus on data management across the Fund with identified ownership across individual service areas;
- effective oversight of the Fund’s compliance with statutory requirements on data; and
- a risk-based approach to assessing impact against action in the improvement of data quality.

We will measure the success of these outcomes through:

- **Regulatory** – continual improvement of the Fund’s attainment to meet regulatory standards on data quality
- **Reputational** – the timely and accurate issuance of benefit information to members within set KPIs and the collaboration with employers enabling them to monitor their own performance
- **Compliance** – respond within statutory timescales to data protection queries and deliver on disclosure requirements to members
- **Operational** – reduce processing times and improve benefit operation KPIs through efficient processing of data.

These outcomes are monitored on a regular basis by the Fund’s Senior Management Team, Pensions Committee and Local Pensions Board through the monitoring of key performance indicators and the Fund’s compliance monitoring program reported on a monthly/quarterly basis.

## 10 ONGOING IMPROVEMENT

This strategy and associated plans are intended to provide a continuous cycle of data analysis ensuring the Fund remains committed to ensuring complete data accuracy in the information it holds about its members.

### Approved by

Pensions Committee	June 2020
Local Pensions Board	July 2020
Pensions Committee	

### Version Control

Version 1.2020	RH 15/5/2020
<b>Next Review Date</b>	
December 2020	

West Midlands Pension Fund  
PO Box 3948  
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WV1 1XP

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report Title</b>	Completion of the 2019 Actuarial Valuation	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Simon Taylor	Head of Pensions
	Tel	01902 55 4276
	Email	<a href="mailto:Simon.taylor2@wolverhampton.gov.uk">Simon.taylor2@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
	Tel	01902 55 1715
	Email	<a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Board is asked to note:

1. The finalisation of the 2019 actuarial valuation and the associated actuarial Rates and Adjustment certificate signed 31 March 2020.
2. The revised Funding Strategy Statement implemented for the Fund following consultation as part of the 2019 actuarial valuation.
3. The ongoing activity to oversee changes in employer funding arrangements and wider review of outcomes of the 2019 actuarial valuation.

## **1.0 Purpose**

- 1.1 To provide the Board with confirmation of the finalised 2019 actuarial valuation and a summary of the national position and associated reviews.

## **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 31 March 2019 valuation, the Fund Actuary has certified the employer contribution rates due for the three years 2020/21 to 2023/2024.

## **3.0 2019 valuation reports**

- 3.1 The finalised Funding Strategy Statement (FSS) was presented to Pensions Committee for approval as an urgent decision notice as part of the March 2020 papers and is included in appendix A. Following conclusion of discussions with employers, the Main Fund 2019 valuation report and Rates and Adjustment Certificate was signed by the Fund actuary on 31 March 2020. A link to the Scheme Actuary's report for the West Midlands Pension Fund (Main Fund) is included in the schedule of background papers at the end of this report.
- 3.2 Following the merger of the West Midlands' LGPS pension funds effective 1 April 2019, the FSS incorporates funding strategy for employers within the former West Midlands Integrated Transport Pension Fund (WMITA PF), although a separate and final actuarial valuation report is prepared for the 31 March 2019 valuation for WMITA PF. The Fund requested, and was successful in receiving from MHCLG, an extension to the timeframe for finalising the WMITA PF 2019 valuation report and Rates and Adjustments certificate until 30 June 2020, to allow discussions with the employers to conclude in what has been an exceptional year for this Fund.

## **3.3 Main Fund – key headlines**

- 3.3.1 As per the valuation report, as at 31 March 2019 the Main Fund was 94% funded representing an increase of 13% when compared to the funding level as at 31 March 2016. The market asset valuation as at 31 March 2019 was £15,634m, with liabilities valued at £16,648m and a funding deficit of £1,014m (compared to a deficit of £2,650 million as at 31 March 2016).
- 3.3.2 The primary contribution rate (average future service contribution rate) for the Main Fund was 20.4% of total pensionable payroll, with a secondary rate (average past service deficit contribution rate) of 5.8% for 2020/2021. Note that past service deficit contributions are paid as monetary amounts and a total of £114.5m is expected to be paid in 2020/2021.

3.3.3 The table below sets out a comparison of the total contributions expected for the Main Fund in line with the 2019 actuarial valuation (April 2020-2023) compared to those received over the three years following the 2016 valuation (April 2017-2020).

Future contribution expectations	2016 valuation (£000)	2019 valuation (£000)
Total future service contributions over 3 years	£906,664	£1,241,200
Total past service deficit contributions over 3 years	£502,105	£354,500
<b>Total</b>	<b>£1,408,769</b>	<b>£1,595,700</b>

The future service contribution (primary rate) requirement across all employers has increased with the rise in future inflation expectations being the predominant driver in estimating the cost of benefits members accrue in future, year-on-year. Taking into account the position in 2019, the deficit is now expected to be eliminated over a shorter period, with employer payments targeting recovery over a period up to 17 years depending on their covenant assessment.

#### 3.4 WMITA Fund – key headlines

3.4.1 As per the valuation report, as at 31 March 2019 the WMITA Fund was 84% funded representing an increase of 2% when compared to the funding level as at 31 March 2016. The market asset valuation as at 31 March 2019 was c£495m (including the buy-in of c£228m), with liabilities valued at c£586m and a funding deficit of £91m.

3.4.2 The table below sets out a comparison of the total contributions expected for the former WMITA Fund in line with the 2019 actuarial valuation (April 2020-2023) compared to those received over the three years following the 2016 valuation (April 2017-2020).

Future contribution expectations	2016 valuation	2019 valuation
Total future service contributions over 3 years	£9,603,800	£8,400,000
Total past service deficit contributions over 3 years	£23,056,700	£21,902,000
<b>Total</b>	<b>£32,660,500</b>	<b>£30,302,000</b>

#### 4.0 Implementing change to employer funding arrangements

4.1 The Fund has been monitoring closely the payments received for April 2020 (due by 19 May 2020) to ensure they comply with those set out in the 2019 valuation report. This will check advance payments and changes to payment rates are implemented when due. Any discrepancies or late payments will be raised with the relevant employers.

4.2 Following the extensive consultation process undertaken by the Fund, there remain a handful of arrangements to be agreed with individual employers, which will be finalised over the forthcoming months. These remain subject to continued dialogue with the respective employers and are centred around recent changes to employers which may impact upon their ongoing participation within the Fund and also known covenant issues whereby the employer approached the Fund prior to 31 March 2020.

4.3 The Fund is in the process of updating the “employer watchlist” to reflect the 2019 valuation results and the Fund will maintain ongoing dialogue with these employers around affordability and strengthening of covenant as their financial position continues to evolve. This review and dialogue will naturally include the impact of the recent covid-19 outbreak, both in terms of shorter-term affordability and mid to longer-term covenant.

## **5.0 Wider review of outcomes**

5.1 Under Section 13 of the Public Service Pensions Act 2013, the Government Actuary Department (GAD) will undertake their review of LGPS valuation outcomes and issue a public report (expected early 2021). GAD have committed to engaging with Funds and Administering Authorities over any issues or concerns their review raises in advance of the report publication.

5.2 GAD has written to all LGPS Funds with commentary on data provided to the Fund actuary as part of the 2019 valuation and highlighting key conclusions. GAD will be working with the four actuarial firms from a national perspective, to agree data requirements for the 2020 Scheme review, with the potential for further conversations with individual funds to follow.

5.3 The Scheme Advisory Board (SAB) has confirmed that, as at the 31st March 2019, the LGPS liabilities were estimated at £291bn (an improvement of c6%) indicating an overall funding level of 98%. It is important to note that each fund will have used different assumptions, and whilst not directly comparable across funds, the aggregated total liabilities provides an indication of funding level for the scheme as a whole at the triennial valuation date.

5.4 Purely for comparison purposes, it is anticipated that SAB will publish anonymised comparison data on a GAD “standardised” valuation basis in due course. Using this standardised basis, the Main Fund has a funding level of 107%, which we understand is broadly in line with average across the LGPS. This notional assessment will not reflect local funding and investment strategy and differs from the assessment used to determine employer contribution rates.

5.5 Following the 2019 valuation, the on-going cost of the LGPS as a whole will be reviewed against the cost caps established by HM Treasury and the Scheme Advisory Board, following the introduction of scheme changes in 2014. If the notional costs of the scheme (as measured by GAD) have increased above a threshold this could trigger either a requirement for benefit or member contribution review (HMT process) or requirement to review and make recommendations around future benefit review (SAB process, DCLG review). It should be noted that the cost cap reviews due following the 2016 valuation have not yet completed and these are currently on hold pending clarification of the impact of the McCloud ruling on LGPS benefits.

## **6.0 Financial implications**

- 6.1 The results of the 31 March 2019 actuarial valuation may have financial implications for participating employers in setting employer contribution rates for the three years from April 2020.
- 6.2 The outcomes of the SAB/HMT reviews may result in an amendment to benefits and/or member contribution levels.

## **7.0 Legal implications**

- 7.1 The report has potential legal implications in that the outcomes of the GAD Section 13 could (based on the draft investment regulations) trigger Secretary of State intervention in the funding and investment strategy.

## **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 This 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 background papers**

- 12.1 Main Fund 2019 actuarial valuation report  
(<https://www.wmpfonline.com/CHttpHandler.ashx?id=17662&p=0>)

## **13.0 Schedule of appendices**

- 13.1 Appendix A: Funding Strategy Statement 2020

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# FUNDING STRATEGY STATEMENT MARCH 2020



West Midlands Pension Fund

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## 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.

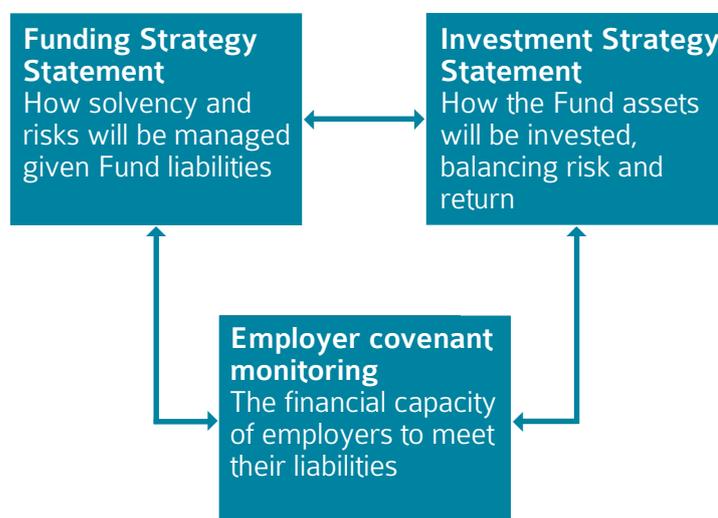
This FSS has been developed for the West Midlands Pension Fund in conjunction with the 2019 actuarial valuation. It was adopted and approved following consultation, on 25 March 2020.

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.

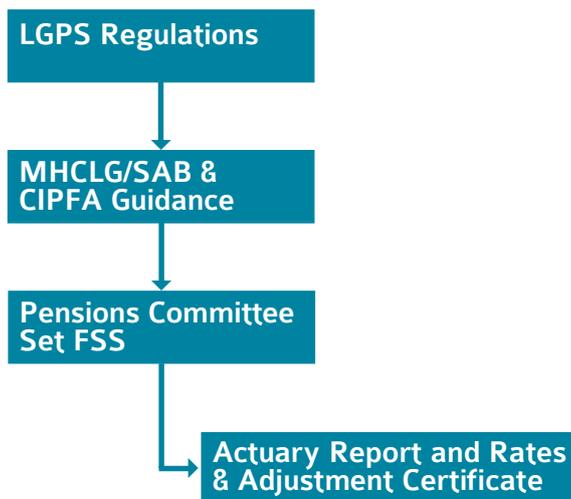
In conjunction with the merger, former employers of the WMITA pension fund now participate in the main West Midlands Pension Fund with associated assets and liabilities transferred to two separate Admission Body Funds (ABF). For the purposes of the 2019 actuarial valuation (and thereafter) the associated 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
<p>Investment risk - Assets do not deliver the return required to meet the cost of benefits payable from the Fund; potential drivers</p> <ul style="list-style-type: none"> <li>• Inappropriate asset allocation and risk</li> <li>• Investment market failure</li> <li>• Manager underperformance</li> </ul>	<ul style="list-style-type: none"> <li>• Investment strategy considered in context of Fund liabilities and return requirement set within the funding strategy statement</li> <li>• Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement (ISS), with annual review</li> <li>• Regular monitoring of strategy asset allocation and returns relative to benchmark</li> <li>• Regular monitoring of manager performance</li> </ul>
<p>Increasing maturity and benefit cashflow requirement; potential drivers</p> <ul style="list-style-type: none"> <li>• Falling contribution income and increasing total benefit payments as more members start to draw their benefits</li> <li>• Declining active membership due to change in local authority service delivery models</li> <li>• Increasing reliance on income-generating assets</li> </ul>	<ul style="list-style-type: none"> <li>• Investment strategy review develop based on future benefit cashflow projection</li> <li>• Modelling of investment strategy and future asset income streams</li> <li>• Regular monitoring of membership movements and liability profile</li> </ul>
<p>Increasing future benefit costs; potential drivers</p> <ul style="list-style-type: none"> <li>• Rising levels of future inflation</li> <li>• Increasing life expectancy beyond the level expected for Fund members</li> </ul>	<ul style="list-style-type: none"> <li>• Regular monitoring of funding level</li> <li>• Review of scheme membership experience vs expectations as part of each triennial actuarial valuation, with fund-specific review of mortality experience</li> <li>• Ongoing review and cleanse of member data records to enable accurate and up to date assessment at each triennial valuation</li> </ul>

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

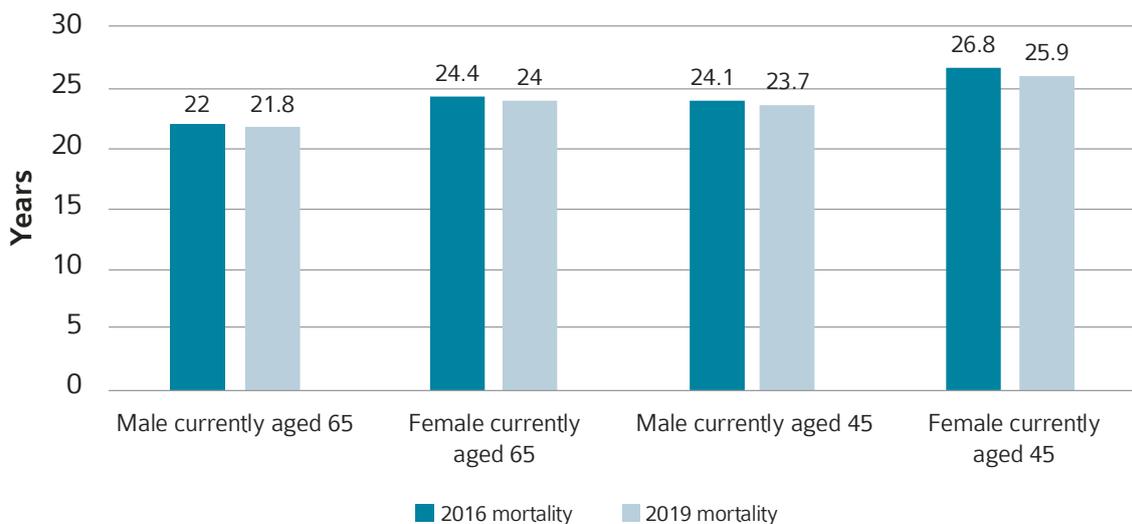
Assumption	2019	2016
Discount rate (for non-orphan liabilities)	4.6% per annum	4.7% per annum
Discount rate (for orphan liabilities)	2.6% per annum	3.3% per annum
Volatility reserve	5.0%/10.0% loading on past service liability for 'Category 2' or 'Category 3' employers	5.0%/10.0% loading on past service liability for 'Category 2' or 'Category 3' employers
Inflation/pension increases (CPI)	2.6% pa	2.4% pa
Salary increases		
- Short term	n/a	1.0% pa for three years
- Long term	3.6% pa (CPI plus 1.0% pa)	3.9% pa (CPI plus 1.5% pa)
- Salary increments	n/a	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.					
	<b>Type</b>	<b>Base table</b>	<b>Adjustments (M/F)</b>	<b>Type</b>	<b>Base table</b>	<b>Adjustments (M/F)</b>
	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 of business)

### 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 <sup>1</sup>	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

<sup>1</sup>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

- 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

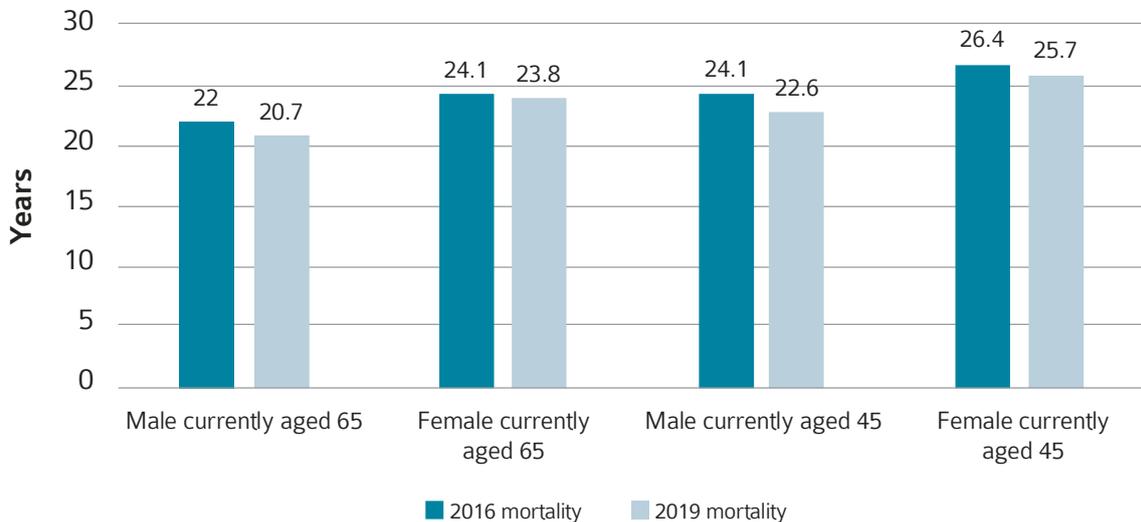
The Fund undertook a detailed assessment of WMTL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood and scale of employer default was used in the context of the funding strategy review.

#### 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

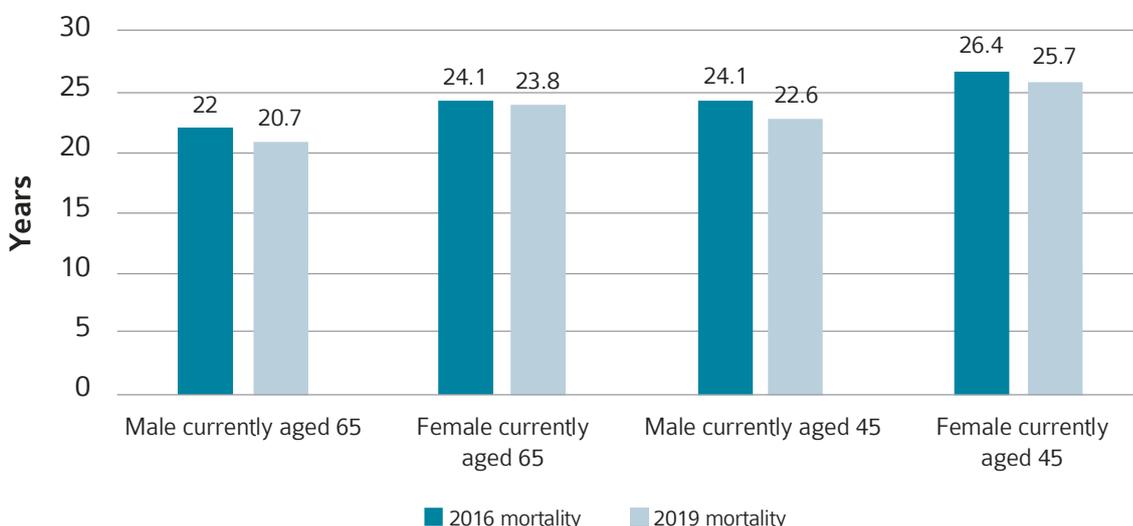
The Fund undertook a detailed assessment of PBL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood x scale of employer default was used in the context of the funding strategy review.

### 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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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report title</b>	Investment Governance	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Jill Davys Tel Email	Assistant Director, Investments & Finance 01902 55 0555 <a href="mailto:Jill.davys@wolverhampton.gov.uk">Jill.davys@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 <a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Board is recommended to note:

1. The revised Investment Strategy Statement in place for the Fund following review in conjunction with the 2019 actuarial valuation, consultation and approval in March 2020.
2. The Fund's updated Responsible Investment Framework incorporating updated Stewardship themes for the next three years, approved in June 2020.
3. The Fund's Investment Risk and Assurance Framework approved in June 2020.
4. The update on investment governance matters including those in relation to responsible investment and investment pooling.

## 1.0 Purpose and Background

- 1.1 This report provides an update on investment related matters including review of the Fund's Investment Strategy, the ongoing development of LGPS Central Investment Pool and the Fund's responsible investment activities.
- 1.2 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.

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.
- 1.3 LGPS Central Ltd ("the Company") is a jointly owned investment management company established by West Midlands Pension Fund and seven Partner Funds to deliver investment pooling for the LGPS Central pool in accordance with the criteria laid down by the Secretary of State.
- 1.4 Investments products and services to Partner Funds are being developed, supported and overseen by the governance structures established within the Company and across the wider investment pool. The Shareholder Forum and Joint Committee each meet at least twice annually with the Shareholder Forum considering shareholder related matters such as the Company's strategic business plan, annual budget and annual report and accounts. The Joint Committee is focused very much on client deliverables of investment pooling, together with governance and oversight of pooling arrangements.
- 1.5 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment framework. There are three main pillars to the framework: **selection** (of assets), **stewardship** (of assets), and **transparency & disclosure**.

## **2.0 Investment Strategy**

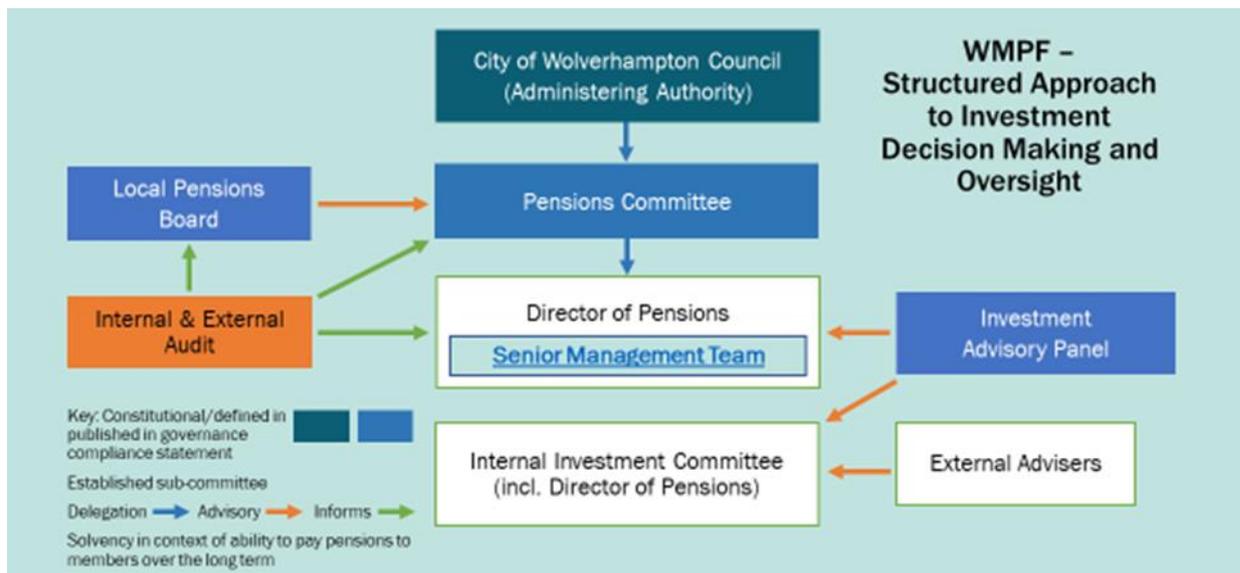
- 2.1 The Fund undertook a review of Investment Strategy in conjunction with the triennial Actuarial Valuation during 2019/2020 with a revised strategy being incorporated into the Investment Strategy Statement (ISS) approved under urgent decisions by the Pensions Committee in March 2020 and has now been published on the Fund's website. A copy of the Investment Strategy Statement is appended to this report at Appendix A.
- 2.2 The updated investment strategy also incorporated a review of the Fund's wider 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. The Fund's Investment Advisory Panel (IAP) were fully engaged and consulted on the development of the new strategy. Employers and advisers were consulted on the new ISS as part of the review process.
- 2.3 Following the merger of the WMITA Pension Fund with the Main Fund, the Fund has amalgamated the investment strategies of the two new separate admission body funds (2 former employers of WMITA Pension Fund) into the main ISS.
- 2.4 When setting 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.

## **3.0 Investment Risk and Assurance Framework**

- 3.1 The Fund's strategic asset allocation is set out in the Investment Strategy Statement as noted above. Invested assets were valued at over £16bn as at the end of May 2020 with a diverse range of investments held to deliver the Fund's investment objectives. How the Fund manages and oversees the implemented investment arrangements is a critical part of the Fund's broader governance structure.
- 3.2 The Investment Risk and Assurance Framework forms part of the Fund's Internal Controls Framework and defines the commitment of West Midlands Pension Fund to an integrated approach to investment risk and assurance. The Investment Risk and Assurance Framework is part of the broader integrated risk management for the Fund. It focuses on the implementation of strategy for assets under management and is supplementary to the Fund's Investment Strategy Statement, aligning with the Fund's investment beliefs and fiduciary duty. The Pension Committee approved the Fund's Framework at its meeting on 17 June 2020 and a copy is included within the Legal and Compliance Report to this Board meeting.

The Framework outlines the investment governance arrangements for decision making incorporating those set out in the Council's Constitution along with the structures which support the Fund with day-to-day management activity, setting out clearly the role that the Local Pension Board plays in supporting Pensions Committee in oversight of investment arrangements.

The diagram below shows the key governance arrangements:



#### 4.0 LGPS Central Investment Pool Sub-Fund Development and Asset Transition

- 4.1 As previously reported to the Board, since launch and over the next 2-3 years, a range of internally and externally managed sub-funds are being developed for liquid (e.g. equities and bonds) and alternative more-illiquid asset classes (e.g. private equity, property, infrastructure).
- 4.2 WMPF works closely with LGPS Central Ltd and Partner Funds to agree sub-fund product development, with ultimate investment decisions formed based on whether the new sub-fund meets the strategic requirements of the Fund and considering potential cost benefits net of transition costs.
- 4.3 The Fund's Investment Advisory Panel, comprising external advisers, the Director of Pensions and Assistant Director (Investment and Finance), continue to review investment in sub-funds as they are developed taking into account the strategic fit for WMPF. The Pensions Committee are kept updated on product development and are asked to re-confirm delegations to transition assets as appropriate to these emerging sub-funds.
- 4.4 In aggregate as at the end of May, the Fund has transitioned approximately £6.4bn or around 40% of assets under management directly invested in LGPS Central Ltd sub-funds, helping demonstrate compliance with statutory guidance on LGPS Investment Pooling. In addition, the Fund also has a further £7.2bn (just over 40%) under advisory and execution arrangements.
- 4.5 Since the Board last met the Fund has invested £200m in a corporate bond sub-fund and is currently working closely with Partner Funds and LGPS Central Ltd on the launch of products for emerging market debt and multi-asset credit.

4.6 The product development pipeline continues to evolve and be reviewed as strategic priorities and opportunities develop and the Fund works closely with its Partner Funds and LGPS Central Ltd to ensure that suitable products become available to meet the Fund's broader strategic objectives.

## **5.0 LGPS Central Investment Pool Governance**

5.1 As previously reported to the Board, the governance arrangements for the LGPS Central pool include a Shareholder Forum (as the group of "owner" representatives) and the Joint Committee (focused on investment matters and client-side). The Joint Committee has invited a trade union representative to join the Committee and is waiting for a nomination from the TUC. A representative from the West Midlands' Pension Committee is currently attending on an informal basis. The Practitioners Advisory Forum, PAF (officer group) support both groups and act as a liaison with the Company.

5.2 The Shareholder Forum last met in November 2019 and was due to meet in March 2020, but due to the developing Covid19 pandemic this meeting was deferred.

5.3 The Joint Committee met in February and received updates on the workstreams from the Practitioners Advisory Forum (including finance, investment, client and governance oversight and responsible investment), along with the risk and audit assurance framework, and delivery and performance updates. The Joint Committee also received an update from the internal audit working group which undertook an internal audit of the governance arrangements for investment pooling which were satisfactory with a number of minor recommendations which are currently being implemented. An Investment audit is currently underway but has faced some delays due to Covid19 and again the results of this audit will be presented to the Joint Committee in due course.

5.4 The Board were previously advised of draft guidance issued by MHCLG in January 2019, noting in particular, the emphasis on the Pool governance and oversight. It is understood that a formal consultation is due to be issued but was postponed from the autumn and we are awaiting a further update from Government as to when this updated guidance will be issued.

5.5 LGPS Central Limited's own governance arrangements include an Investment Committee, Executive Committee and oversight from the Non-Executives through the company board and sub committees (Remuneration and Audit and Compliance). The Company also sought and obtained permission from Shareholders to recruit for an additional non-executive director who has now been formerly appointed to the Board.

## **6.0 Responsible Investment**

6.1 The Fund's strategy continues to be to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement programme is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Hermes EOS (via a contract held by LGPS Central Limited, the pool operator company), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.

- 6.2 The Fund's engagement activity is monitored and reported to the Pensions Committee on a quarterly basis. Engagement activity includes a number of direct company engagements, on a range of themes, voting activity and working in partnership with other institutional investors to consider shareholder resolutions. Activity and progress are included in published reports from LGPS Central Limited and the Local Authority Pension Fund Forum (LAPFF).
- 6.3 The stewardship themes for engagement for the Fund for the 2019/2020 financial year were: Climate Change; Single-use plastics; Technology and Disruptive Industries; Tax Transparency and fair tax payment. Whilst not a specific theme for the year, the Pensions Committee were keen that there was a focus on Human Rights and the Fund has provided more detailed reporting on this additional theme for Pensions Committee in addition to the previously agreed themes. The Pensions Committee continues to review engagement activity and developments on a quarterly basis and respond to enquiries from members, stakeholders and campaign groups, as these are received and through statements and material published on the Fund website.
- 6.4 Following a review of the Fund's Responsible Investment Framework an updated Framework along with new engagement themes to cover the period 2020-23 were approved by Pensions Committee at its meeting on 17 June. The new engagement themes for the next three years have been agreed as: Climate Change; Sustainable Food Systems; Human Rights and Responsible Financial Management. The recently approved updated Responsible Investment Framework can be found on the Fund's website and is attached as at appendix B to this report.
- 6.5 The Fund has been a signatory of the UK Stewardship Code ('the Code') since its inception in 2012. The Fund defines the concept of stewardship in the same way as the FRC: *"Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."*
- 6.6 The FRC has now published an updated Code which came into effect from 1 January 2020. The Code represents a new best practice standard for both asset owners and asset managers alike. The new guidelines require that Funds who want to remain or become signatories of the Code must publish a Stewardship Report, demonstrating compliance with the 12 principles of the Code by 31 March 2021. The Code will also be used in conjunction with forthcoming guidance to be issued by the Scheme Advisory Board, as a basis for reviewing and strengthening the Fund's approach to responsible investment activity. The Fund will be working in conjunction with LGSPC Ltd to update the Fund's current statement on compliance with the Code ahead of March 2021.

## **7.0 Financial implications**

7.1 There are no direct financial implications arising as a result of this report.

## **8.0 Legal implications**

8.1 The requirement under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 with updated Guidance on preparing and maintaining an Investment Strategy Statement (ISS) has been met with the review and publication of the ISS attached at appendix one.

8.2 The requirement to pool fund investments is a requirement of law, failure to work collaboratively and meet the Government's criteria and timetable for delivery may result in Government intervention.

8.3 MHCLG issued updated draft statutory guidance relating to investment pooling for informal consultation in January 2019. This was to update and replace the original statutory guidance issued in 2015. Both the Fund and LGPS Central Ltd have provided responses to the consultation and MHCLG and currently expected to issue a formal consultation in 2020.

## **9.0 Equalities implications**

9.1 There are no direct equalities implications.

## **10.0 Environmental implications**

10.1 There are no direct environmental implications.

## **11.0 Human resources implications**

11.1 There are no direct human resources implications.

## **12.0 Corporate landlord implications**

12.1 There are no direct corporate landlord implications.

## **13.0 Schedule of background papers**

13.1 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 <http://www.legislation.gov.uk/ukxi/2016/946/contents/made>

13.2 Ministry for Housing, Communities and Local Government (MHCLG) Statutory Guidance on Preparing and Maintaining an Investment Strategy Statement 2017: <http://lgpslibrary.org/assets/statgui/ew/201707ISS.pdf>

## **14.0 Schedule of appendices**

14.1 Appendix A – WMPF Investment Strategy Statement.

14.2 Appendix B – WMPF Responsible Investment Framework.

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# INVESTMENT STRATEGY STATEMENT MARCH 2020



West Midlands Pension Fund

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## 1 INTRODUCTION

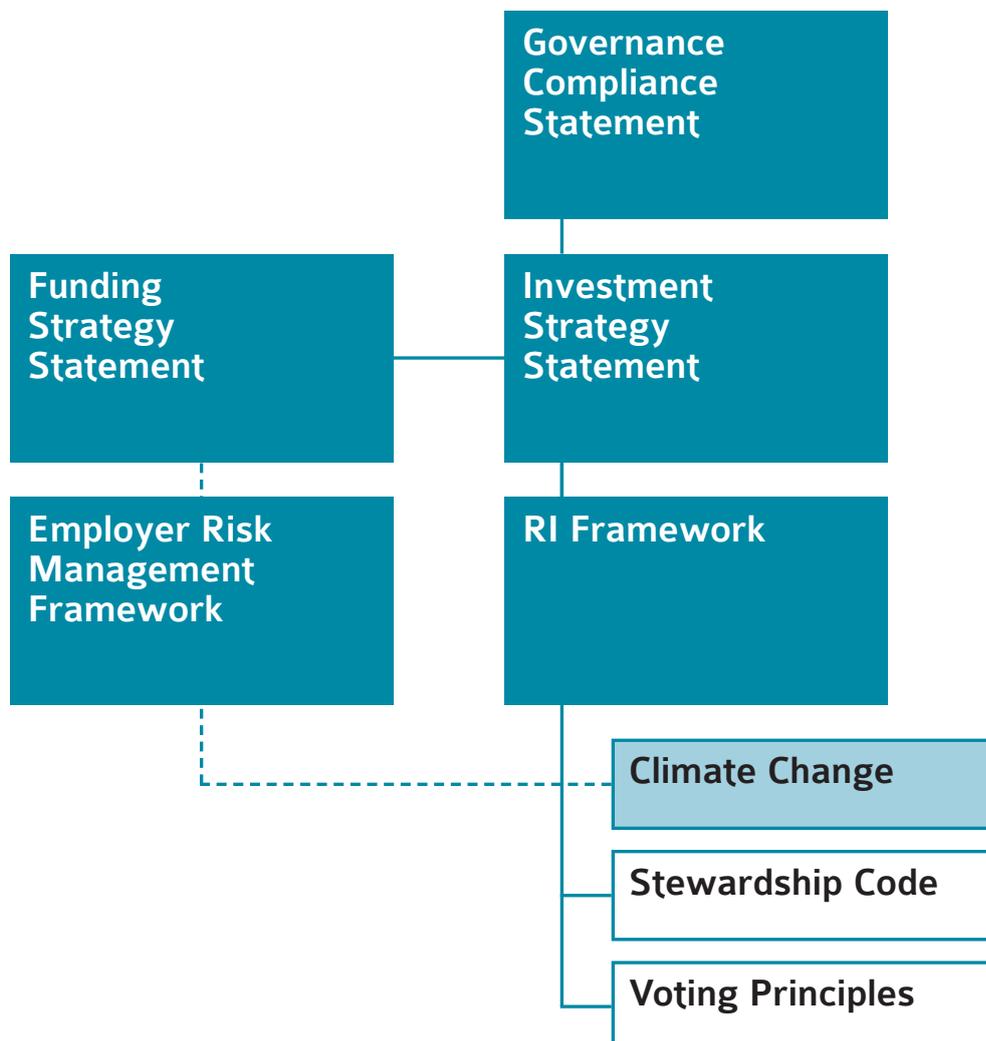
Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the West Midlands Pension Fund (the Fund) in accordance with regulation 7 of the Local Government Pension Scheme (Management 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 its 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 quantitatively.
- 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
<p>Investment risk - Assets do not deliver the return required to meet the cost of benefits payable from the Fund; potential drivers:</p> <ul style="list-style-type: none"> <li>• Inappropriate asset allocation and risk management</li> <li>• Investment market performance/volatility</li> <li>• Manager underperformance</li> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• Investment strategy considered in context of Fund liabilities and return requirement set within the Funding Strategy Statement</li> <li>• Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement (ISS), with annual review</li> <li>• Regular monitoring of strategic asset allocation and returns relative to benchmark</li> <li>• Regular monitoring of manager performance</li> <li>• Diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles</li> <li>• 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</li> </ul>
<p>Increasing maturity and benefit cashflow requirement; potential drivers:</p> <ul style="list-style-type: none"> <li>• Falling contribution income and increasing total benefit payments as more members start to draw their benefits</li> <li>• Declining active membership due to change in local authority service delivery models</li> <li>• Increasing reliance on income-generating assets</li> </ul>	<ul style="list-style-type: none"> <li>• Investment strategy review develop based on future benefit cashflow projection</li> <li>• Modelling of investment strategy and future asset income streams</li> <li>• Regular monitoring of membership movements and liability profile</li> </ul>
<p>Changing scheme regulations and guidance – impacting scheme benefits, funding strategy, actuarial valuations, investment strategy; potential drivers include:</p> <ul style="list-style-type: none"> <li>• Changes to scheme benefits from the LGPS cost management process</li> <li>• Changes to the approach for setting actuarial factors (for example on early retirement)</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing horizon scanning and consideration on the Fund risk register</li> <li>• Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding</li> <li>• Participation in national review and consideration of emerging issues within the LGPS</li> </ul>

Financial Risks	Management / Control
<ul style="list-style-type: none"> <li>• Changing regulations and guidance for administering authorities within the LGPS</li> </ul>	
<p>Asset risks (the portfolio versus the SIAB)</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.</li> <li>• Currency risk that the currency of the Fund's assets underperforms relative to the SIAB.</li> <li>• Manager underperformance when the Fund managers fail to achieve the rate of investment return assumed in setting their mandates.</li> </ul>	<p>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.</p> <ul style="list-style-type: none"> <li>• Constraining how far Fund investments deviate from the SIAB by setting diversification guidelines and the SIAB strategic ranges;</li> <li>• 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;</li> <li>• 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;</li> <li>• Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process;</li> <li>• Appointing several investment managers. In doing so the Fund has considered the risk of underperformance by any single investment manager</li> </ul>
<p>Responsible investment (RI) risks that are not given due consideration by the Fund or its investment managers.</p>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<p>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.</p>	<ul style="list-style-type: none"> <li>• Establishment of a separate climate change framework and strategy setting out its approach to this risk</li> <li>• Monitoring and measuring the impact of climate change risks</li> </ul>

Operational Risks	Management / Control
Investment pooling: <ul style="list-style-type: none"> <li>• Expected benefits and cost savings do not emerge over the long-term</li> </ul>	<ul style="list-style-type: none"> <li>• Investment Pool Risk Register</li> <li>• Collaboration on product development – protocol in place</li> <li>• Monitoring and management of costs</li> </ul>
Transactional: <ul style="list-style-type: none"> <li>• Transition risks – unexpected costs or losses arising from transition of assets</li> <li>• Custody – risk of losing economic rights to Fund assets when in custody or being traded</li> <li>• Credit or counterparty – potential default of counterparty</li> <li>• Financial recording of assets is inaccurate</li> </ul>	<ul style="list-style-type: none"> <li>• Professional advice from specialist transition managers, due diligence and oversight on transitions</li> <li>• Use of global custodian, contractual management and accounting records</li> <li>• Due diligence prior to appointment, review of credit ratings, internal controls reporting and compliance monitoring</li> <li>• Reconciliation of assets, internal and external audit</li> </ul>

## 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 its 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](http://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.

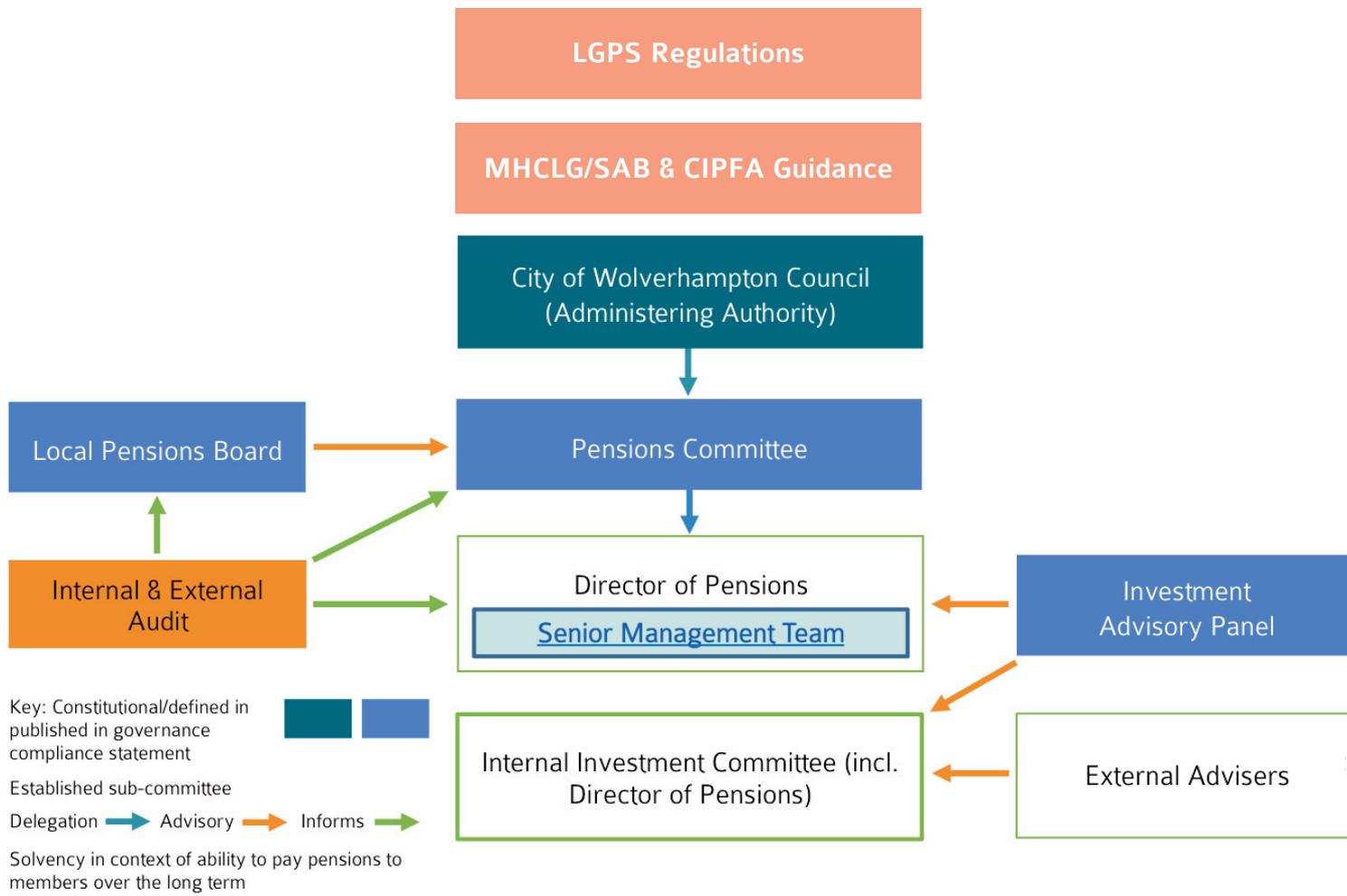
The Myners' principles have since been updated, and the Fund continues to support and comply with them. Full details of compliance are set out in the Fund's Compliance with Myners' Statement which can be found on the Fund's website.

## 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:

<b>Pensions Committee</b>	<ul style="list-style-type: none"> <li>Effect decisions on the management and administration of the Fund including investment decisions, annual approval of the Investment Strategy Statement</li> </ul>
<b>Local Pensions Board</b>	<ul style="list-style-type: none"> <li>Review the process of effective decision-making</li> </ul>
<b>Director of Pensions</b>	<ul style="list-style-type: none"> <li>Delegation for day to day management of Pension Fund including investments and implementation of investment strategy</li> </ul>
<b>Investment Advisory Panel</b>	<ul style="list-style-type: none"> <li>Supports the Director of Pensions and Internal Investment Committee with strategic advice, challenge, market commentary and oversight of portfolio management</li> </ul>
<b>Internal Investment Committee</b>	<ul style="list-style-type: none"> <li>Day-to-day asset allocation and investment strategy decision-making and implementation of investment strategy, together with oversight and monitoring of investment management arrangements</li> </ul>
<b>Investment Advisors</b>	<ul style="list-style-type: none"> <li>Provision of advice on markets, investment strategy, risk management and individual investment ideas</li> </ul>
<b>Internal &amp; External Audit</b>	<ul style="list-style-type: none"> <li>Review process, decisions and implementation and to provide assurance to those charged with governance of the Pension Fund</li> </ul>

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

## 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 quantitatively.

**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
<b>Total</b>	<b>100.0</b>	

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%
<b>Total</b>	<b>100.0</b>

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

<b>PBL medium term asset allocation March 2020</b>		
	<b>Target %</b>	<b>Range %</b>
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
<b>Total</b>	<b>100.0</b>	

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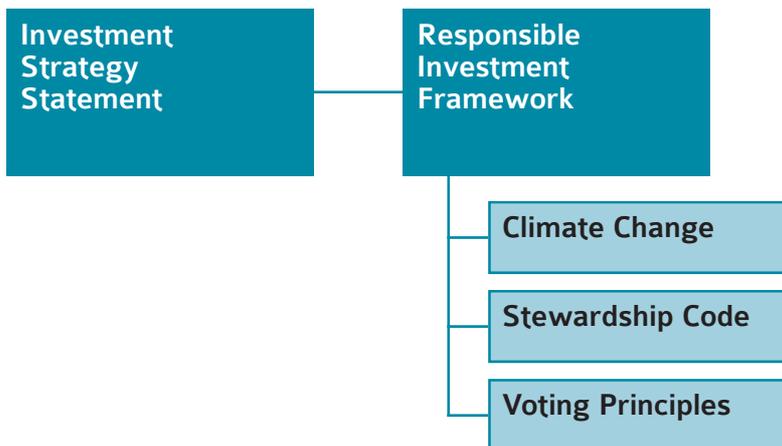
# RESPONSIBLE INVESTMENT FRAMEWORK JUNE 2020



West Midlands Pension Fund

## 1 PURPOSE

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



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

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

The Pensions Committee review the framework at a minimum annually, or at such time as the Fund sees fit to revise its RI policies and procedures. This statement updates and replaces the June 2019 *Responsible Investment Framework*. This statement was approved by Pensions Committee on 17 June 2020

### Definitions of Responsible Investment

The term “responsible investment” refers to the integration of financially material environmental, social and corporate governance (“ESG”) factors into investment processes. It has relevance both before and after the investment decision and is a core part of fiduciary duty. It is distinct from “ethical investment”, which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

Please refer to the glossary for more definitions of terms.

## 2 BELIEFS AND GUIDING PRINCIPLES

### Investment Beliefs

The Fund's Statement of Investment Beliefs, set out in the Fund's *Investment Strategy Statement* 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 quantitatively.
- **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.

### Engagement and Collaboration

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

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

### Remuneration and Cost Management

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

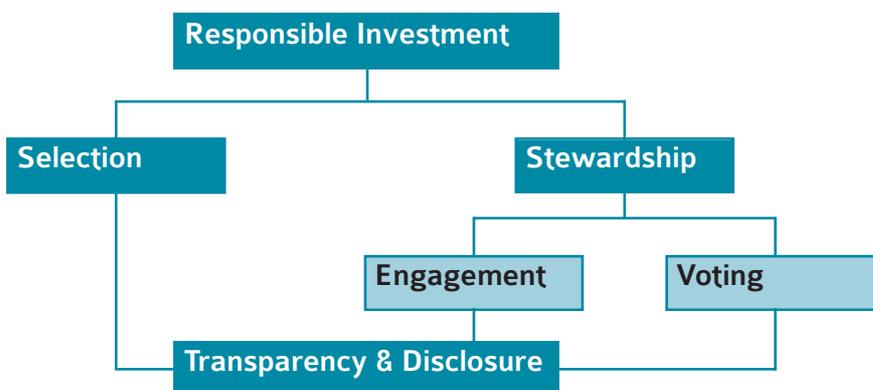
### Climate Change

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

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

## 3 IMPLEMENTATION

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



## Selection

The Fund aims to be aware of and monitor financially material RI issues in the context of investment and manager selection, whether this is through directly appointed external managers, or funds managed by LGPS Central Ltd. The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of fund managers across all asset classes.

## Fund Manager Due Diligence

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

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

## Fund Manager Appointments

The Fund assesses the RI capability of a Fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a Fund manager, the Fund takes a balanced consideration of all relevant factors including RI. However, the Fund will pay particular attention to adherence to relevant soft regulatory codes<sup>1</sup> depending on the market in which it invests.

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

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

<sup>1</sup>For example the UK Stewardship Code

### **LGPS Central Limited**

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

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

### **Engagement Through Partnerships**

The Fund’s strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund’s engagement programme is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Hermes EOS (via a contract held by LGPS Central Ltd, the Fund’s investment pool operator), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.

### **Company Engagement**

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

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

### **Fund Manager Monitoring**

Each fund manager is expected to report<sup>2</sup> at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of RI issues into its investment and stewardship activities.
- How investment and stewardship functions are combined to protect and/or enhance value.

<sup>2</sup>Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

- Any outcomes arising from the manager's engagement with companies and their effectiveness.

### **Industry Engagement**

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

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

### **Shareholder Litigation**

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

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

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

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

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

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

### **Voting**

The Fund has adopted a separate voting policy which can be found at <https://www.wmpfonline.com>

### Transparency and Disclosure

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

- making its RI policy documents public, eg, voting policies, *Climate Change Framework and Strategy*;
- providing a summary of the Fund's RI activities, including voting activity<sup>3</sup>, in the annual report ;
- providing a summary of the Fund's RI activities in the quarterly reports to the Fund's Pensions Committee;
- publishing aggregate voting and company engagement statistics on a quarterly basis;
- disclosing the outcomes of its voting decisions on a vote-by-vote basis; and
- disclosing the Fund's approach to managing climate change risk using the TCFD framework.

### 4 ENGAGEMENT THEMES FOR 2020-23

The Fund has selected four engagement themes for the financial year: climate change; sustainable food systems; human rights; and responsible financial management.

- **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. It is the Fund's view that the scale of these impacts is such that a proactive and precautionary approach is needed in order to address them. The Fund has a proactive programme of climate change stewardship, primarily by leveraging its strategic partnerships including LAPFF, LGPS Central, Hermes EOS, the Transition Pathway Initiative, the Climate Action 100+ Initiative, and the Institutional Investor Group on Climate Change.
- **Sustainable food systems** – A sustainable food system is one that delivers food and nutrition security for all in such a way that the economic, social and environmental bases to generate food security and nutrition for future generations are not compromised. There has been a shift among consumers who are increasingly aware of, and concerned by, the climate impacts of the food they eat and how sustainably it is produced. Not only is climate change having an impact on the planet, but so are the actions of modern society. The Fund is very conscious of the damage that single use plastics has on the environment and is keen to engage alongside partners in highlighting the risks that single use plastics pose to longer term financial returns.
- **Human rights** - Human rights include civil, political, economic, and social and cultural rights, such as the right to life, the right to freedom of association or the right to health. The ability and commitment to remedy human rights issues reflects the strength of a company's culture and risk management. Many companies are reliant upon global supply chains to access labour in low cost regions. Although no publicly traded companies intentionally support human trafficking, they can become unintentionally complicit in it by inadequately overseeing their supply chains. To combat this, companies must remain vigilant with regard to their suppliers' hiring policies and practices to avoid and discourage these conditions in the workplace.

<sup>3</sup>In line with Regulation 57 of the 2013 Regulations.

- **Responsible financial management** – The Fund supports the practice of responsible financial management. The avoidance of tax by some large multinationals has attracted a great deal of criticism, and small businesses shouldering a heavier tax burden have struggled to compete. Instead, more companies are now taking a long-term view that investment in the community and the society in which they operate by paying taxes will ultimately lead to greater prosperity for the business too.

## 5 MEMBERSHIPS AND AFFILIATIONS

### Local Authority Pension Fund Forum

The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund's Director of Pensions is currently LAPFF's Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 84 local authority pension funds and investment pools from across the country with combined assets of around £250 billion. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

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

### Other Initiatives

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

## 6 APPENDIX: GLOSSARY OF TERMS

### **ESG Factors**

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

### **Ethical Investment**

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

### **Fund**

West Midlands Pension Fund which incorporates the former employers of the West Midlands Integrated Transport Authority Pension Fund following a merger of the Funds.

### **Governance**

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

### **Pensions Board**

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

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

### **Pensions Committee**

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

### **Socially Responsible/Social Impact Investments**

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

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

### **Responsible Investment**

The integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes both before and after the investment decision.

**Stewardship**

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

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The UK Stewardship Code (2020) sets high standard for asset owners and asset managers, and for service providers that support them”.

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 9 July 2020
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<b>Report title</b>	Fund Response to Covid-19	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Rachel Howe	Head of Governance
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<b>Report to be/has been considered by</b>	Rachel Brothwood	Director of Pensions
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**Recommendations for noting:**

The Board is asked to note:

1. The steps taken by the Fund to protect employees, mitigate impact and maintain service delivery during the current global health crisis.
2. The national picture across pensions and the LGPS in responding to the crisis.
3. The steps being taken to review the current office environment and assess the potential for colleagues to return to the office.

## **1.0 Purpose**

- 1.1 To provide an overview of the Fund's response to the current global pandemic, providing assurance of the Fund's service delivery and its ability to pay pension benefits when they fall due, together with the steps being taken to ensure the ongoing protection of our employees in the preparation for re-opening our office space.

## **2.0 Background**

- 2.1 Following the announcement from Government on 23 March 2020 that the UK enter a period of Lockdown to help mitigate the spread of Coronavirus, the Fund, in conjunction with the City of Wolverhampton Council, instructed all employees to work from home putting into effect its Business Continuity Plan.
- 2.2 Since that time, all employees (with the exception of skeleton staff outlined below) have continued to work from home providing ongoing service delivery to Fund members and employers.

## **3.0 Actioning the Business Continuity Plan (BCP)**

- 3.1 During 2019, the Fund took steps to ensure all employees were able to work away from the office by issuing laptops and mobile devices to teams across all service areas as an improvement highlighted by that year's review of the BCP. At the start of the 2020 year, the Fund reviewed and updated its BCP as part of its annual programme of governance and compliance considering the changes implemented the year before. As a result of that change, when the announcement was made that the UK was entering a period of lockdown, the Fund was able to mobilise its employees quickly and set up working from home.
- 3.2 Inevitably there were initial teething problems with some set up; home networks are not as efficient as the office/business networks, colleagues needed to adjust to their new home office environments, and the challenge of home schooling was now a reality to many, however all officers have responded well to the change in working arrangements and continue delivering Fund services.

## **4.0 Working from Home Arrangements**

- 4.1 In implementing working from home arrangements, a number of functions and technological support were required to be implemented swiftly to maintain certain services. These included the use of soft phones for our customer call centre staff, which enables them to take calls through their laptops without the need for a separate phone line. Working with our colleagues in the Council, those soft phones were actioned within a matter of days and were tested before the formal announcement of lockdown came. This has meant the Fund has been able to continue to deliver a front-line service and maintain contact with our members during this period of uncertainty.

- 4.2 To support our colleagues in their new working environment, in conjunction with the City Council, Microsoft Teams has been rolled out to all employees, together with quick user guides and training notes on how to prepare for virtual meetings and utilise the functionality Teams provides. In addition, the Fund's own Systems team have developed a number of guides and helpful hints and tips on how to set up your home office space.
- 4.3 To support our employee well-being, a weekly check-in survey was designed by the Fund's Staff Forum, to assess working from home arrangements.
- 4.4 Unfortunately the Fund is currently unable to deliver face-to-face sessions for members, an area of service which is usually in high demand and is well regarded by those who access it. At this time, the Fund is considering alternatives to providing this service, such as virtual meetings with one-to-one support being provided by phone to help members discuss their pension benefits.
- 4.5 To support service delivery a very limited number of skeleton staff have been attending on site twice a week to support with incoming and outgoing post. Those attending the office have been provided with equipment and advice to support good hygiene practices when working on site with individual risk assessments having been completed in line with NHS and Council guidance.
- 4.6 As an employer, the Fund is incredibly proud of the way our colleagues have responded to the current environment, however we are conscious that as their employer, we have a duty of care to ensure their well-being as much as their personal safety. Employees working at home are encouraged to access the Council's employee well-being initiatives for support and advice, and all our encouraged to use the platforms available (Microsoft Teams) for daily/weekly check-ins with managers and colleagues and to use the opportunity for social catch ups during breaks.

## **5.0 Priority Services and the new environment**

- 5.1 In March 2020 the Pensions Regulator (tPR) and the Pension Administration Standards Association (PASA) issued guidance to UK pension funds outlining the areas of priority focus for administrators in maintaining service delivery for members. In summary, for pension administration those priorities being:
- Ensuring sufficient funds are held to settle benefits and other scheme expenditure
  - Maintaining evidenced accuracy for benefit calculations
  - Keeping good records of any work in progress
- 5.1.1 As part of that guidance, tPR has confirmed that it can adopt a more flexible approach to what it would expect to be reported in a number of areas due to the COVID-19 situation (including ABS delivery). A failure to maintain service which cannot be linked to the Covid-19 crisis may still result in enforcement activity by the Regulator.

- 5.2 The Fund, in considering those priorities has been able to flex resource across service areas to support teams during peak demand of workloads. As a result, the Fund has continued to pay all pension benefits, including death benefits, when they fall due and continues to plan the delivery of ABS in line with the 31 August deadline.
- 5.3 During this period, the Fund has amended, adapted, and implemented new ways of working to support the new distanced working processes, which support the focussed delivery of these priority service areas, including the acceptance of electronic signatures and photographic documents by email. In implementing these procedures, officers have worked with the Fund's Governance and Assurance Team to build a log of activity undertaken and amended, ensuring all steps taken are fully documented, auditable, and support the Fund in its protection of members. The assurance log is reviewed on a monthly basis by the Senior Management Team and will continue to be developed and enhanced providing assurance to members and employers of the Fund's commitment to good governance during a time of quick response and reactionary measures.

## **6.0 Protecting our Members**

- 6.1 Unfortunately, during this time the potential for fraud and pensions scams is at its highest. The assurance log that has been developed by the Fund seeks to ensure all relevant protections are in place for our members when we implement new ways of working, however, during a time of financial difficulty for many as individuals are furloughed or employers undertake business efficiency programs, the potential to access cash in pensions can be appealing and the opportunistic nature of scammers means the Fund needs to be on high alert to inform and protect our members during this time.
- 6.2 The Fund has taken extra steps to implement checks when actioning transfer-out requests from members including a manager review of the case and if necessary, a call direct to the member where concerns are raised on case review, prior to the transfer out being actioned. All customer call centre officers have received training on protecting personal information with security checks undertaken at the point of contact to confirm a members' identity. In addition, the Fund's Governance and Assurance Team have been prolific in reviewing requests for information as well as advising colleagues on points to watch when managing personal data.
- 6.3 While ensuring the well-being of our colleagues, this time can be difficult for everyone and the Fund is even more alert to concerns about our members and any potential safeguarding concerns which may need to be raised. During this period the Fund has made two safeguarding referrals regarding members of the Fund, both highlighted by calls from members to the Customer Contact Centre. Officers of that team have been commended on their candour and handling of the calls, highlighting concerns to the Head of Governance which resulted in the necessary referrals being made.

## **7.0 Future Impact**

- 7.1 Noted within the Pension Administration report is an overview of the workload statistics during this period of lockdown and the impact of Covid-19 on work volumes. In reviewing the current situation, it is prudent of the Fund to plan, prepare and understand the potential impact on future workload and service delivery which may be felt as a result of the current working environment.
- 7.2 At this time, the Fund is aware that a number of its members may be subject to furlough and that as a result of the current economic climate, the potential for some employers to be suffering financial difficulty may mean those employers are unable to make timely contributions and may be required to make business efficiencies, which may result in reduced hours or possible redundancies. The full impact for the Fund in relation to these issues may not be known for a period of time, but monitoring is being undertaken to test and reconcile contributions and data on a monthly basis to highlight early any issues and prevent higher levels of data queries emerging later in the financial year. Unidentified and unresolved, there is potential for impact on future benefit statement production and calculation of benefits.
- 7.3 The Fund has reached out to employers through a series of follow-up enquiries to better understand the short-term implications for their operations and the extent to which this may impact their ability to meet obligations to the Fund.
- 7.4 Longer term, changes in member experience (including mortality), employer resilience and economic factors impacting inflation and investment returns could have implications for funding and these will be considered in more detail as the implications and global response to the pandemic become clearer.

## **8.0 National Picture**

- 8.1 Throughout the pensions industry and specifically the LGPS a number of bodies are working to keep Funds informed of progress and initiatives to support the ongoing work of Funds during this time. The Scheme Advisory Board (SAB) together with the LGA have issued a number of surveys to LGPS Funds to understand the potential impact Covid-19 has had on both administration and governance.
- 8.2 Those surveys include:
- LGPS resilience survey to determine the ongoing ability of Funds to continue to pay pension benefits. The initial results of which determined a high resilience amongst LGPS Funds in the ability to continue to pay more than 1.5 million pensioners.
  - Survey of LGPS Cashflow which showed a small minority of Funds who are anticipating issues due to loss of dividend income or delayed employer contributions (WMPF was not one of those with concerns).
  - LGPS Governance Survey assessing the ability of Funds to continue to take decisions and hold virtual meetings.

- 8.3 While there is a heavy focus on the current Covid-19 crisis, SAB and national bodies are also continuing to progress workstreams commenced prior to the lockdown. Three areas the Fund is activity monitoring are:
- 8.3.1 Pending consultation on changes to the calculation of Scheme benefits following the McCloud ruling (expected late June) – this is expected to result in significant additional administration workload for all Funds.
  - 8.3.2 Outcome following consultation on a £95k cost cap on benefits (including the LGPS) for members leaving employment as a result of business efficiency or redundancy – this is expected to require a change in benefit processing with potential further options and decision for members in relation to drawing retirement benefits from the Scheme.
  - 8.3.3 GMP equalisation for public sectors pension scheme – with an interim solution in place until 2021, further consultation is expected on how the Scheme implements the requirement for GMP equalisation, with potential requirement to revisit the calculation of GMP benefits.

## **9.0 Future Working Environment**

- 9.1 Following the latest extension to the lockdown measures on 10 May, Government later that week issued guidance to employers on preparing work environments and office spaces to ensure ongoing protection of employees.
- 9.2 The Fund has reviewed the advice and in conjunction with the Council (at time of writing) are reviewing our current working space to assess compliance with the guidance to enable a safe return by our officers.
- 9.3 Using a template created by WM Employers, the Fund has conducted an initial risk assessment of the workspace and identified initial steps that need to be taken to facilitate a return to the office space. Return is expected to be carried out on a phased basis, prioritising those employees and services with greatest need for office space. Face to face services and visitors to the offices are expected to be last to resume.
- 9.4 In conjunction with this review and phased return, work will also be undertaken to consider future options for agile working. Employee wellbeing and system performance surveys have been undertaken to test working at home experience. Any change in practice will be carried out following the development of policy by the Council and employee and trade union consultation, noting our overriding objective to find the best environment we can to deliver reliable and progressive services to our members and employers.
- 9.5 The Fund is engaging with Manders, as the landlord to understand their considerations in making the common areas (entrance, exits, lifts, etc.) compliant. It is expected that re-opening and development of any “new normal” will take a number of months, particularly to the public.

## **10.0 Risk management and communications**

- 10.1 To support the Fund's response to the pandemic and to enable Senior Managers to direct resource where it is needed, a bespoke risk register has been created to identify, monitor and manage risks caused by Coronavirus which has been under fortnightly review by the Senior Management Team. Since it's initial assessment the Fund has been able to mitigate the impact of the risks identified with 4 risks reducing in overall likelihood and impact through the course of system developments and national change. 3 risks have increased which are linked to workloads and people as highlighted in the pension administration report.
- 10.2 The Fund has ensured all stakeholders have been engaged and informed of the Fund's work since the lockdown commenced in March with weekly briefings provided to the Chair and Vice Chair of Pensions Committee, monthly briefings to the Chair and Vice Chair of Local Pensions Board together with a monthly briefing note issued to all members of the Fund's governing bodies providing an overview of the ongoing work of the Fund in response to the current pandemic, ensuring all benefits are paid when they fall due. In addition, the Fund has created tailored FAQ's for both our members and employers with further information on the Fund's customer engagement provided in the customer engagement report.
- 10.3 At the time of writing the Fund is reviewing its current recruitment programme. The 2020 Graduate and Trainee programme was launched in May, with a number of applications having been received to date. The programme of recruitment has been created to allow as much lead in time as possible while we work through the current environment. Other roles are being considered on a case by case basis on assessment of need by service area with the ability to conduct virtual interviews using Microsoft Teams and in line with the protocol issued by the Council's HR team.

## **11.0 Financial implications**

- 11.1 Noted within the Covid-19 risk register is the potential impact on the 2020/2021 budget, where amendments to office environment and planned service and advisory arrangements may be required together with the need to provide additional equipment to employees and re-work office space to facilitate social distancing. Some flexibility was built in to the Fund's operational budget for service development and there may be some changes in the format of service delivery however, the overall impact will continue to be monitored through the quarterly budget review process.
- 11.2 In response to increased investment market volatility the Fund regularly assessed its cash requirements and its ongoing ability to meet liability payments as they become due. Specifically, this analysis included enhanced monitoring of cash-flows into the Fund as well as regular assessment of market conditions that could impact the ability to liquidate short-term investments to fund cash payments. Whilst several actions were identified that could be enacted if market conditions further deteriorated, no action was deemed necessary and at this time the short-term liquidity profile of the Fund is considered to be good.

## **12.0 Legal implications**

- 12.1 The Fund has a duty to pay pension benefits as they fall due, failure to do so may result in challenge from both the regulator and national bodies.
- 12.2 The Fund has a duty as an employer to protect its employees providing a safe environment for them to work, following health and safety regulations and new guidance, as this emerges. Any proposed return to the office will be considered in consultation with City of Wolverhampton Council and the relevant Trade Unions.

## **13.0 Equalities implications**

- 13.1 Equality Impact Assessments will be undertaken and reviewed as part of the planned phase return to the office considering any individual requirements as necessary.

## **14.0 Environmental implications**

- 14.1 There are no direct environmental implications

## **15.0 Human resources implications**

- 15.1 The Fund has a duty to provide a safe environment for all employees and will be working with City of Wolverhampton HR team to assess and determine any steps to return to the office. Any proposals will be considered in consultation with relevant Trade Unions.

## **16.0 Corporate landlord implications**

- 16.1 Part of the assessment of office environment may result in office refurbishment works and/or adjustment to the office space to facilitate an appropriate environment that complies with national guidance. This assessment will be undertaken with CWC Corporate Landlord officers.

## **17.0 Schedule of background papers**

- 17.1 PASA Guidance to pension administrators  
<https://www.pasa-uk.com/wp-content/uploads/2020/04/COVID-19-Guidance-for-Administrators-March-2020-FINAL.pdf>
- 17.2 Scheme Advisory Board governance survey results  
<http://lgpsboard.org/index.php/structure-reform/covid19>
- 17.3 Government guidance “Working safely during Covid-19”  
<https://assets.publishing.service.gov.uk/media/5eb97e7686650c278d4496ea/working-safely-during-covid-19-offices-contact-centres-110520.pdf>
- 17.4 The Pensions Regulator guidance for scheme Trustees and Administrators  
<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/scheme-administration-covid-19-guidance-for-trustees-and-public-service>