CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

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

Venue Online Meeting

Membership

Chair Cllr Milkinderpal Jaspal (Lab)
Vice-chair Cllr Clare Simm (Lab)

Labour	**Conservative**	**Independent**
Cllr Stephen Simkins	Cllr Paul Singh	Cllr Harman Banger
Cllr Jasbinder Dehar		
Cllr Keith Inston		
Cllr Phil Page		
Cllr John Reynolds		

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

Trade union observers
Malcolm Cantello
Martin Clift
Ian Smith

Quorum for this meeting is eight Councillors.

Information for the Public

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

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Agenda

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**

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

3 **Minutes of the Previous Meeting** (Pages 5 - 12)
[For approval.]

4 **Matters arising**
[To consider any matters arising from the minutes of the previous meeting.]

5 **Customer Engagement Update** (Pages 13 - 36)
[To receive an update of the Fund's customer engagement activity from 1 October 2020 to 31 December 2020.]

6 **Pensions Administration Report from 1 October to 31 December 2020** (Pages 37 - 68)
[To receive an update on the routine operational work undertaken by the pensions administration service areas during the period 1 October to 31 December 2020.]

7 **Governance and Assurance** (Pages 69 - 80)
[To receive an update on the work of the Fund to deliver a well governed scheme.]

8 **Regulatory Update** (Pages 81 - 86)
[To receive an update on key developments currently impacting the regulatory environment in which the Fund operates.]

9 **Funding Strategy Statement Review 2021** (Pages 87 - 142)
[To receive an overview of the proposed changes to the Funding Strategy Statement (FSS) following the publication of amendments to LGPS Regulation which enable employer funding flexibility.]

10 **Corporate Plan 2021-2026** (Pages 143 - 146)
[To receive the proposed Fund Corporate Plan 2021 – 2026. Appendix A to follow.]

11 **Budget Monitoring 2020-2021 and Quarterly Accounts 31 December 2020** (Pages 147 - 154)
[To receive an update on the forecast out-turn against operating budget for 2020/2021 and present the quarterly accounts to 31 December 2020.]

12 **Budget 2021/2022 and Financial Plan to 2025/2026** (Pages 155 - 162)
[To receive the Operating Budget for 2021/2022 and the Medium-Term financial plan for the five years up to and including 2025/2026.]

13 **Accounting Policies 2020/2021** (Pages 163 - 172)
[To receive the accounting policies to be used in preparing the Funds' accounts for the 2020/2021 financial year.]

14 **External Audit Plan 2021** (Pages 173 - 176)
[To receive an update on the plan for the external audit of the Fund's Annual Report and Accounts for 2020/2021. Appendices to follow.]

15 **Internal Audit Plan 2021-2022** (Pages 177 - 188)
[To receive an outline of the work programme for internal audit during 2021 – 2022.]

16 **Quarterly Investment Report to 31 December 2020 and Investment Strategy Statement Review 2021** (Pages 189 - 212)
[To receive an update on developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub Funds). Appendix B to follow.]

17 **Responsible Investment Activities** (Pages 213 - 236)
[To receive an update on the work undertaken in relation to responsible investment activities.]

18 **Exclusion of press and public**
[To pass the following resolution:
That, in accordance with section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within paragraph 3 of Schedule 12A to the Act.]

PART 2 - EXEMPT ITEMS, CLOSED TO PRESS AND PUBLIC

19 **Investment Strategy and Activity Update** (Pages 237 - 242)
[To receive an update on the investment strategy and activity in the WMPF and Admitted Body Sub Funds over the quarter.]

20 **LGPS Central Pool Shareholder Update** (Pages 243 - 248)
[To receive an update on matters considered and presented to Shareholders at the LGPS Central Limited General Meeting on 10 February 2021 and on the Company and pool progress.]

21 **Procurement Programme** (Pages 249 - 254)
[To receive an update on the programme of work to procure key systems and professional services/advisors.]

22 **Cyber Security** (Pages 255 - 272)
[To receive an update on the activity undertaken in 2020/2021 in relation to protect the Fund's data and assets against cybercrime.]

23 **Guaranteed Minimum Pension Reconciliation** (Pages 273 - 278)

[To receive an update on the rectification of member's pension in payment records.]

Agenda Item No: 3

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** Minutes - 9 December 2020

Attendance

Members of the Pensions Committee

Cllr Stephen Simkins
Cllr Milkinderpal Jaspal (Chair)
Cllr Keith Inston
Cllr Phil Page
Cllr John Reynolds
Cllr Paul Singh
Cllr Muhammad Afzal (Birmingham City Council
Cllr Sandra Hevican (Sandwell MBC)
Cllr Bally Singh (Coventry City Council)
Cllr Councillor Alan Taylor (Dudley MBC)
Malcolm Cantello (Trade Union Observer Representative)
Ian Smith (Trade Union Observer Representative)

Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Tom Davies	Assistant Director - Investment Strategy - West Midlands Pension Fund
Jill Davys	Assistant Director - Investment Partnership - West Midlands Pension Fund
Fabrica Hastings	Democratic Service Assistant – City of Wolverhampton Council
Rachel Howe	Head of Governance and Corporate Services - West Midlands Pension Fund
Jaswinder Kaur	Democratic Services Manager (Host) - City of Wolverhampton Council
Lauren Pote	Governance Support Officer - West Midlands Pension Fund
Hayley Reid	Regulatory Governance Manager – West Midlands Pension Fund
Amy Regler	Head of Operations - West Midlands Pension Fund
Darshan Singh	Head of Finance - West Midlands Pension Fund
Holly Slater	Governance Officer - West Midlands Pension Fund
Simon Taylor	Assistant Director – Pensions - West Midlands Pension Fund
Kirsty Tuffin	Democratic Services Officer – City of Wolverhampton Council

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**
Apologies were received from Martin Clift, Councillor Jas Dehar, Councillor Rose Martin, Councillor Clare Simm, Councillor Joe Tildesley and Councillor Harman Banger.

Please note: Councillor Alan Taylor joined the meeting at 10:11 and Councillor Stephen Simkins joined at 10:53.

2 **Declarations of interests (if any)**
There were no declarations of interest.

3 **Minutes of the Previous Meeting**
That the minutes of the previous meeting held on 17 June 2020 be approved as a correct record and signed by the Chair, subject to the following amendment be added to section 8:

In response to a question from Cllr Reynolds, The Assistant Director, Investment Partnerships agreed to provide further information to the committee on the comparative performance of the energy companies, across the different sectors in which the Fund is invested, so that actual and projected return could be considered alongside the role of renewable energy and clean technology, noting the Fund's evidence based approach to investing over the long term. The Committee noted that the response to climate change requires a wider social and behavioural change to influence demand and the ongoing importance of engaging with policy makers and other investors to drive change.

As per item 8, point 4, of the minutes from the previous meeting be changed to include 'be noted'.

4 **Matters arising**
Rachel Brothwood, Director of Pensions, advised the Committee that the Management Representations letter to Grant Thornton had been agreed and that the Fund had published its Annual Report following delegation agreed by the Committee in June 2020, complying with the LGPS regulatory requirement to publish by 1 December.

Further to concerns raised by Ian Smith on the member impact of delay in an employer establishing an admission agreement with the Fund following TUPE transfer, Simon Taylor, Assistant Director, Pensions provided an update on employer engagement and the escalation in dialogue undertaken to resolve.

5 **Budget Monitoring 2020/2021 and Quarterly Accounts - 30 September 2020**
Darshan Singh, Head of Finance, presented the report on the forecast out-turn against operating budget for 2020/2021 and presented the quarterly accounts to 30 September 2020.

The Committee were advised that since 31 March 2020 the recovery in the markets and advanced employer contributions received relative to benefits paid had increased the estimated value of the West Midlands Pension Fund by £2.5billion. The increase in forecast investment costs was noted to be linked to both rising assets values and change in the strategic asset allocation.

Resolved:

1. That the delegation for the review and sign-off of the budget in connection with Fund premises to the Director of Pensions in consultation with the Chair and Vice Chair be approved.
2. That the quarterly accounts for the period ending 30 September 2020 which estimated the value of West Midlands Pension Fund at this date to be £17.8 billion, an increase of £2.5 billion (16%) since 31 March 2020 be noted.
3. That the West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of September 2020 is an overspend of £6.3m primarily attributable to increased estimates for investment management costs on implementation of planned changes to the investment strategy be noted.

6 **Quarterly Investment Report to 30 September 2020**

Tom Davies, Assistant Director, Investment Strategy, presented the Quarterly Investment Report that outlined developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub Funds).

The Committee were advised that the main Fund benchmark had been met for the last quarter at 2.1% and performance had been marginally above benchmark on a 10 year basis, noting the short term volatility in emerging market equity and infrastructure as a result of the current environment, with expectation for recovery longer term. Strong equity market performance was noted, with both newer sustainable equity and Climate Factor strategies making a positive contribution and property income showing resilience relative to the wider market as a result of the sector weightings.

In response to a question from Malcolm Cantello (Unison) about the amount of cash held by the Fund, Tom Davies advised that the Fund was increasing allocation to infrastructure and private debt having made commitments, but that drawdown of those commitments would appear over time as due diligence is completed and timing is considered. Councillor Reynolds requested if the Fund looked to pursue further investment in China, that a report be brought to Committee on action taken with regard to stewardship of Human Rights.

Resolved:

1. That the global market and investment update paper prepared by the Fund’s Investment Consultant, Redington be noted.
2. That the Asset Allocation and Performance Reporting for the West Midlands Pension Fund (WMPF), Main Fund and Admitted Body Sub Funds be noted.

7 **Responsible Investment**

Jill Davys, Assistant Director, Investment Partnerships, presented the report on the work undertaken in relation to responsible investment activities since the last Pensions Committee meeting.

The Committee were advised that engagement in climate change had extended beyond the more traditional energy sectors and included food, online retailers, transport utilities. Critical engagement had taken place through various groups, including Climate Action 100+ that would help drive the climate change agenda and disclosure of commitment and actions.

Jill Davys confirmed that the Fund had published its first standalone report on climate change related disclosure in line with recommendation made by the taskforce on climate related financial disclosure (TCFD). It was noted that the report demonstrates how actions taken by the Fund to date have acted to reduce exposure to transition risk within the portfolio.

Members noted correspondence received regarding the Fund’s exposure to fossil fuels, with responses being prepared for issue, together with a further briefing on concerns raised.

Councillor Reynolds welcomed the focus on deforestation and noted the demand for soya and meat was a driver for climate change and an area where further engagement would be welcome.

Councillor Bally Singh welcomed the report and additional transparency, requesting greater active engagement and call-out of outliers, noting Exxon Mobil had more to do to demonstrate commitment to change.

Councillor Simkins noted the need for the Fund to consider in more detail, the opportunities for investment in new clean technologies, and the learning and skills to delivery these new industries.

Malcolm Cantello requested further information on engagement activity.

The Chair, Councillor Milkinderpal Jaspal, concluded the discussion noting the Committee would continue to monitor this area in context of the Fund’s exposure and action required by all to address the root causes of climate change.

Officers agreed to continue to develop reporting and information in response to the requests made by the Committee.

Resolved:

1. That the Publication of the Fund’s first stand-alone report prepared in line with recommendations from the Taskforce on Climate Related Financial Disclosure (TCFD) be approved.
2. That the Fund’s engagement and voting activity for the three months ending 30 September 2020 be noted.
3. That the research and engagement activity undertaken by LAPFF as set out in the Quarterly Engagement Report, available on the LAPFF website:

https://lapfforum.org/wpcontent/uploads/2020/10/LAPFF_QER3_2020.pdf be noted.
4. That the voting and engagement activity of LGPS Central, as set out in the Quarterly Stewardship Report, available on the LGPS Central website: https://www.lgpscentral.co.uk/wpcontent/uploads/2020/11/LGPSC-Quarterly-Stewardship-Update-Q2-2020-21-1.pdf be noted.

8 **Pensions Administration Report from 1 July to 30 September 2020**

Amy Regler, Head of Operations, presented the report on the routine operational work undertaken by the pension's administration service areas during the period 1 July to 30 September 2020.

The Committee were advised that following an increase in some pension processes volumes had returned back to business as usual levels during the quarter, with target KPI's met in August 2020 and September 2020.

Key projects in the Digital Transformation Programme were now live following rigorous security testing, and development of new functionalities in the Employer Hub.

Resolved:

1. That the write-offs detailed in section 13 of this report be approved.
2. That the applications approved by the Director of Pensions and the Chair or Vice-Chair of Pensions Committee for admission to the West Midlands Pension Fund be noted.
3. That the impact of COVID19 on the workload across service areas supporting pension administration be noted.
4. That the update on progress of the Fund's Digital Transformation Programme be noted.
5. That the enhanced processes in place to routinely test and improve accuracy of Fund member records be noted.

9 **Customer Engagement Update**

Simon Taylor, Assistant Director, Pensions, presented the report on the Fund's customer engagement activity from 1 July 2020 to 30 September 2020 and future planned customer engagement activity in the context of the Fund's Customer Engagement Strategy.

The Committee were advised that the Fund had transitioned its offering to digital in response to the pandemic, with success seen in the delivery of 32 virtual webinars and 396 follow up telephone consultations with individual pension members. Feedback on these sessions were extremely positive with roll out of Virtual Employer Peer Group also taking place over the quarter, and further online coaching sessions planned. The Fund had met with the Customer Service Excellence (CSE) assessor to discuss customer engagement and were awaiting the final report back but were pleased to be able to report the Fund's re-accreditation with "compliance plus" status.

Resolved:
1. That the proposed further postponement to review the Pensions. Administration Strategy (PAS) and the associated consultation be approved.
2. That the engagement activity and customer support provided aligned to the Covid-19 restrictions be noted.

10 **Pensions Administration Benchmarking and Accreditation**

Amy Regler, Head of Operations, presented the report on the benchmarking exercises undertaken in relation to 2019/2020 for the delivery of Fund's Pension Administration Services.

The Committee were advised that the Fund participated in the annual benchmarking exercises in Pension Administration to help assess improvements and assess value add in the service offering. 2018/2019 had been the first year that CEM benchmarking had undertaken review of LGPS pension administration functions. The Fund has seen a service score improvement for 2019/2020 compared to 2018/2019 in areas such as; average call waiting times and the percentage of members registered on the online portal.

The Committee were advised that the West Midlands Pension Fund were the first Local Government Pension Fund in England and Wales to successfully achieve the Pension Administration Standards Association (PASA) accreditation which would remain in place for three years. Members thanked all the team for their hard work.

Resolved:
1. That the initial results and key outcomes of the benchmarking exercises undertaken for 2019/2020 for the Fund's Pension Administration Services be noted.
2. That the achievement of the Pension Administration Standards Association (PASA) Accreditation be noted.

11 **Governance and Assurance**

Rachel Howe, Head of Governance, presented the report on the work of the Fund to deliver a well governed scheme.

The Committee were advised that the Fund had submitted the tPR's Annual Scheme return to the regulator ahead of the 15 December 2020 deadline. A final run of Annual Benefit Statements would take place on 11 December to maximise production of 2020 statements.

Resolved:
1. That the latest strategic risk-register and areas closely monitored in the current environment be noted.
2. That the compliance monitoring activity undertaken during the quarter be noted.
3. That the Fund's Key Performance Indicators and the action taken to support service delivery be noted.

12 **Exclusion of press and public**

Resolved:

That in accordance with Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act.

13 **Employer Covenant and Funding Regulations**

Simon Taylor, Assistant Director, Pensions, presented the report on the steps being taken to align employer funding in the context of recent regulatory change with increased relevance in light of the ongoing Covid-19 pandemic.

The Committee were advised that in light of regulatory change, the Fund would consult with its employers on the proposed changes before bringing an updated Funding Strategy Statement to Committee for approval.

The Assistant Director, Pensions confirmed the Fund's approach in the management of the exit payment cap.

Resolved:

1. That the results of the most recent employer survey and indicators of increased employer covenant risk being actively monitored be noted.
2. That Regulatory change and considerations underway for funding strategy and recovery of strain costs be noted.
3. That an interim approach had been agreed for processing member benefits following the introduction of the Exit Payment regulations in November 2020, pending change to the LGPS Regulations be noted.
4. That the ongoing consideration of Academy employers and pooling of funding costs within the LGPS be noted.

14 **Covid-19 Response Update**

Rachel Howe, Head of Governance, presented the report on the Fund's response to the current global pandemic and the steps being taken to mitigate service delivery impact during further phases of lockdown.

Resolved:

1. That the steps taken by the Fund in response to the Covid pandemic and the ongoing assessment of service delivery impact be noted.

15 **Investment Strategy and Activity Update**

Tom Davies, Assistant Director, Investment Strategy, presented the report on investment strategy and activity in the West Midlands Pension Fund and Admitted Body Sub Funds over the quarter.

The Committee were advised of forthcoming changes and actions taken to review and develop sub fund strategies, including those being developed and reviewed in partnership with the LGPS Central pool.

Resolved:

1. That the update on the development and implementation of investment strategies for the main Pension Fund and Admitted Body Sub Funds be noted.
2. That the Product developments and planned transitions to the LGPS Central pool be noted.

16 **LGPS Central Pool**

Rachel Brothwood, Director of Pensions, presented the report on the outcome of a review of the LGPS Central pool progress and the case for pooling in the context of the West Midlands Pension Fund.

The Committee were advised that the Fund were awaiting published statutory guidance and updated regulations for consultation from Ministry of Housing, Communities and Local Government (MHCLG). Working Groups, involving nine different organisations, had been established to agree actions to further progress the ambition of the Central pool.

Resolved:

1. That the review of pooling progress relative to Statutory requirements and the aims and objectives of the Central pool Strategic Business Plan be noted.

Agenda Item No: 5

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report Title	Customer Engagement Update	
Originating service	Pension Services	
Accountable employee	Simon Taylor Tel Email	Assistant Director, Pensions 01902 55 4276 Simon.taylor2@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Pensions Committee is recommended to:

1. Approve the Communications Policy March 2021 in Appendix E.

Recommendation for noting:

The Pensions Committee is asked to note:

1. The engagement activity and informed service development.

1.0 Purpose

1.1 To provide Committee with an update of the Fund's customer engagement activity from 1 October 2020 to 31 December 2020 and 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 Member engagement

3.1 In accordance with the postponement of face-to-face engagement, the Member Services team switched its method of member support to digital channels such as delivering member webinars and followed up with individual telephone consultations as required. The webinars mirror our normal suite of member presentations and during this reporting period **38** webinars were delivered to **732** attendees. These were followed by **96** individual member telephone consultations in replacement of member face-to-face one-to-ones. This delivery and the associated feedback are summarised in appendices A and B.

3.2 Through the "Be Pension Smart & Take Control of your benefits" campaign the Fund continues to encourage members to manage their account online using the pensions portal. During this reporting period registrations increased by **3,517** bringing the total pension portal registrations to **104,901.**

3.3 In this reporting period the Fund sent **41,356** deferred "Pension Smart" newsletters and **61,161** active "Pension Smart" newsletters.

3.4 New for last year, the Member Service Team designed new deferred member webinar sessions, which was the first bulk support the team has offered to deferred members and we have seen **421** deferred members log onto our webinar and engage with their benefits. Due to their success, deferred webinars will now be incorporated in our annual suite of member support.

3.5 In November, the Fund widened our communications with key stakeholders and associated partner organisations via the social media platform LinkedIn. Since its launch the Fund has posted several articles which link to other companies in the pensions industry to promote aspects of our work. **8,527** people have interacted with the **12** articles we have posted.

3.6 Members continue to view the Funds video shorts which are available through the website. The videos assist members with registration for pensions portal, provide an overview of the LGPS, promote the 50:50 section, provide assistance with retirement planning and explain the annual benefit statements. All the videos have been updated to comply with the new public sector accessibility regulations 2020. Since the videos were published there have been **23,948** views of the videos. This is a **246%** increase when compared to the March 2020 Customer Engagement Update.

3.7 On the 4 and 5 November, several Fund staff met with the Customer Service Excellence (CSE) assessor to talk about the customer engagement which has been delivered over the last 12 months in order to try and achieve the Fund's re-accreditation of CSE. The report identified that the Fund has passed the accreditations with some business areas achieving compliance plus.

3.8 Customer feedback is key to understanding our customer's journey, highlighting our strengths and any gaps in the service we deliver so that we can continually improve the services we offer. Some service enhancements already made include:

- Introducing 'request an estimate' quick link on the website

- Replacing the email address on our Pension Portal emails with our secure email form, and as a result, even more members are using the form and receiving a more streamlined experience when emailing us.

- We have also targeted 5 working days for responses (within KPI of 10 working days) to written enquiries and have developed working practices to enable this quicker turnaround.

We are currently collating customer feedback to improve the Pensions Portal user experience. The feedback collated to date has been shared with our software developer, and we remain in dialogue with them about key priority future developments based on our members' experiences.

During the quarter, a number of surveys were issued to members and employers to assess overall satisfaction levels on a wide range of processes. Over the period, our satisfaction levels were measured as 89%.

4.0 Employer engagement

4.1 Employer Peer Group

4.1.1 The latest session of the Fund's virtual Employer Peer Group cycle took place in December delivered via Microsoft Teams. The meeting was positive with 10 employer representatives present. The content for the meeting included:

- IDRP new Fund guidance review and feedback
- Public Sector Exit Payment Cap
- Employer Survey
- Annual General Meeting
- Fund development updates: Employer Hub and Employer Web trays

4.1.2 Once again, the meeting was followed by the regular technical group session where attendees were able to raise queries for discussion with each other, with support from Fund officers.

4.2 **Employer Webinars**

4.2.1 The Employer Services team has continued to deliver its new programme of employer education over the quarter with a further 7 sessions delivered to 79 individuals from over 40 organisations, some of whom provide payroll services for many other employers within the Fund.

4.2.2 Sessions delivered over the quarter are set out below and will continue to be rolled out in 2021 with an increased availability of webinars being made available each month. Employers are able to easily sign up for the free webinars via the Fund's website.

- Fund induction for employers/payroll providers
- Pay and service
- Monthly Data Collection
- Refunds
- Deferments
- S4 leaver submissions
- Ill health processing for employers
- Bespoke employer session for Multi Academy Trust

4.3 **Employer Performance**

4.3.1 The Employer Services team have continued to hold performance review meetings over the virtual meeting platform with employers throughout the period. Employer performance is assessed in line with the Fund's Pension Administration Strategy (PAS).

4.3.2 During the period the Fund held 6 feedback and performance meetings with 4 major employers (including 1 large employer providing payroll services for over 90 other employers within the Fund) and 1 third party payroll provider who services 25 Fund employers.

4.4 **Employer System Developments: Hub and Webtrays**

4.4.1 Following the external testing undertaken by several employers during September 2020, 60 employers went 'live' in Employer hub in December 2020. Each of these employers now also have access to the webtray functionality.

4.4.2 Employer hub and webtrays continue to be rolled out to all employers and payroll providers with 269 employers as at 1 March 2021 now live.

4.4.3 Considerable engagement is taking place with employers and payroll providers prior to go-live in order to clarify user access, including the granting of super user access to enable self-service with respect to the setting up and unlocking of user accounts by employers or their payroll providers. A number of demonstrations are also being delivered prior to each go live date to provide initial training. A number of guidance videos and documents are being made available to supplement this training.

4.5 **Other employer communications and events**

4.5.1 The Fund's 2020 Virtual Annual General Meeting was held on the 15 December 2020 via Microsoft teams. The event covered a variety of topics including, updates on public sector exit payments, McCloud, member & employer engagement, an Interactive Q&A session, and raising awareness of Pension Scams. We had over **80** attendees from employers, Pensions Board and Pensions Committee, attendees rated the event as **75%** Excellent and 25**%** as good. A summary of the feedback received is provided in appendix C.

4.5.2 A Special Briefing Note was issued in December 2020 to update all employers on the Restriction of Public Sector Exit Payment Cap Regulations 2020 and the MHCLG consultation, Reforming Local Government Exit Pay. The note provided information on the position at that time together with supporting information and instructions on how to notify the Fund regarding retirements going forward.

4.5.3 In December a briefing note was also produced and distributed to employers for circulation to members where appropriate to raise awareness of the changes and options members had as a result of HMT's new exit cap regulations to restrict exit payments in the public sector which came into force 4th November 2020.

4.5.4 Since the issuing of the employer and member briefing notes regarding the exit cap, and as a result of the recent announcement to revoke the HMT regulation changes, a communication was issued to employers to inform them of the reversal and the Fund's website has been updated with a message for members.

4.5.5 The winter Edition of the Employer Brief was issued in December 2020 to all employers and included articles on current regulatory issues and the Fund's new pass-through arrangements for admitted bodies, together withstanding notices, announcements and reminders.

5.0 Future engagement

5.1 On the 9 February the Fund presented to **68** employers at the Birmingham Association Schools Managers group. The Fund is normally asked to attend their annual conference, however this year we have assisted the group via a virtual meeting and provided updates on topical issues in the pensions industry. The intention is for this presentation to be rolled-out and delivered to all bursar groups in the West Midlands.

5.2 Following the Fund's commitment to raise awareness to members on the importance of Retirement Planning, we have started a rolling campaign which will continue every month to target members on the 55th birthday, we will be bulk emailing every active member who reach 55 in a given month and issue them with a toolkit to assist them with retirement planning. The toolkit includes, access to book onto a pre-retirement webinar hosted by the Member Services team, a bespoke retirement planning video designed by the Fund, a pre-retirement guide, budget planners and much more.

5.3 To raise awareness to members of Pension Scams, the Fund will be producing a bulk mailing to scheme members to highlight how to spot the signs of a pension scams. The Member Services Team has also added new pension scams slides in all their presentations and a video will be produced shortly.

5.4 A further **28** webinars to district employers have been delivered throughout January and February which have assisted **549** members "Be pension smart" and take control of their retirement.

5.5 The member service team launched a project in 2018 to target hard to reach members who may not normally be able to access our services due to the nature of their work. This project was put on hold in 2020 due to Covid-19 restrictions, however the team has re-launched hard to reach support virtually throughout January and February 2021 and has initially targeted smaller employers across Coventry & Walsall with plans to target other district employers in the coming months.

5.6 In March 2021, the Fund will be posting over **100,000** Pensioner Newsletters along with members P60.

5.7 The Funds Customer Engagement Plan has now been extended to detail planned events for all stakeholders up to 31 March 2022. The plan can be seen in Appendix D.

6.0 Communication Policy

6.1 Aligned to the Customer Engagement Strategy and in line with the statutory obligations set out in the LGPS Regulations, the Fund has reviewed its Communication Policy, which is referenced in the Fund's Annual Report. As might be expected, this most recent review captures changes made in the Fund's communications as a result of the coronavirus pandemic, many of which are expected to be retained in the longer term. The key changes primarily extend to the provision of online webinars and employer coaching events and general expansion of our digital engagement offering. This policy will remain subject to a process of continued review against the Fund's objectives and deliverables set out in the Customer Engagement Strategy. Committee is asked to approve the revised policy, as detailed in appendix E.

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 The 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 Customer Service Excellence Report (available upon request).

14.0 Schedule of appendices

14.1 Appendix A – Events attended and webinar feedback 1 October – 31 December 2020.

14.2 Appendix B – Individual pension conversation feedback 1 October – 31 December 2020.

14.3 Appendix C – 2020 Annual General Meeting feedback - Employers

14.4 Appendix D – Customer Engagement Plan 2021/2022.

14.5 Appendix E – Communications Policy Statement – March 2021.

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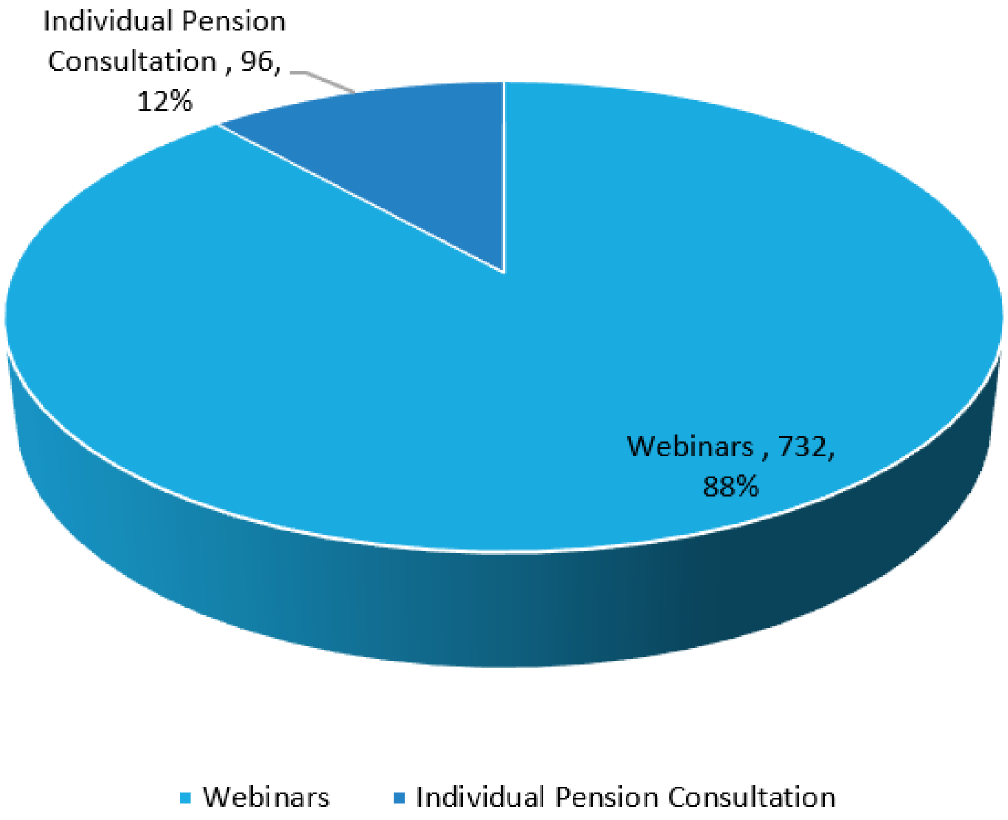
West Midlands Pension Fund

Member Services Team – Events Attended

1st October – 31st December 2020



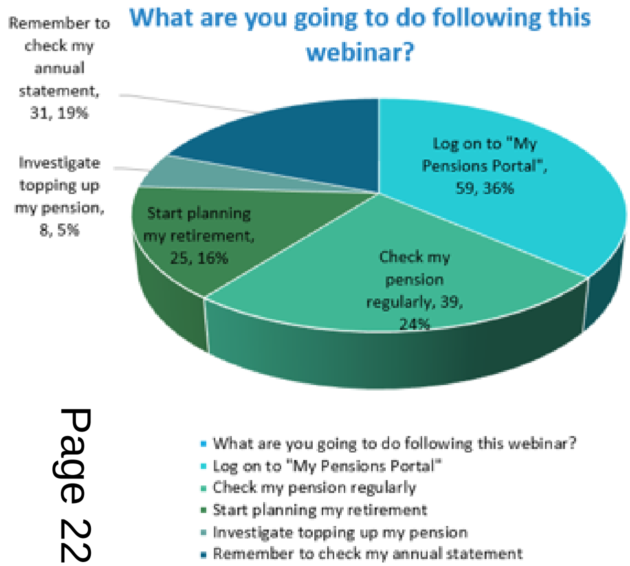
Event Type	Attendance
Telephone 121s	96
Webinar	732
Total	**828**

Appendix A

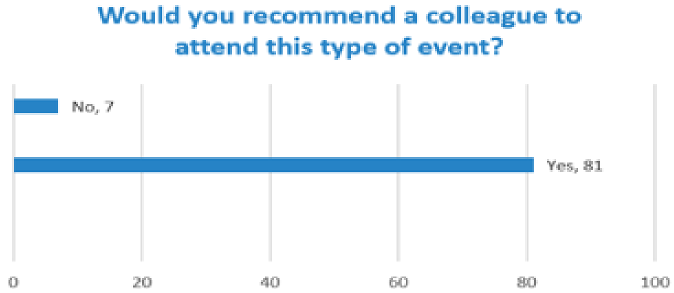
Member Services Team – Presentation Feedback 1st October – 31st December 2020

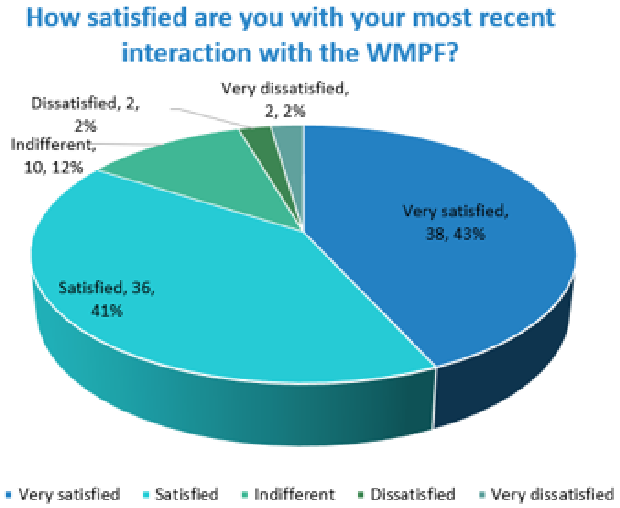
West Midlands Pension Fund

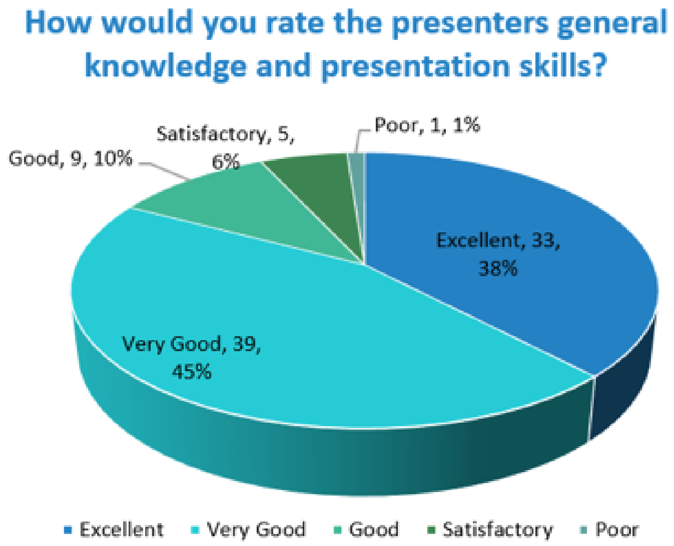
Members feedback on the following areas

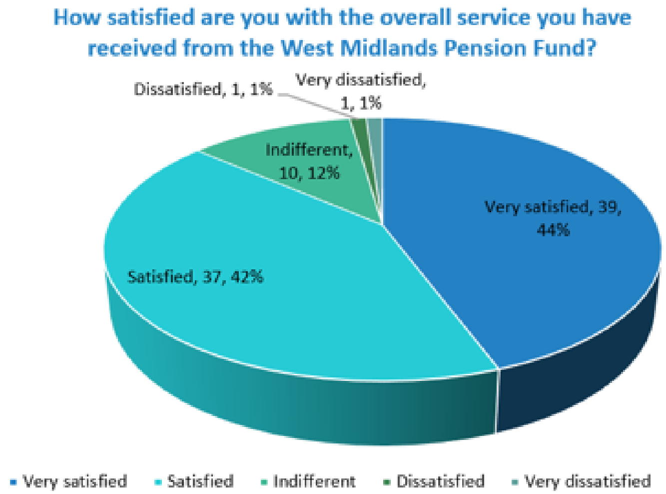


Members surveyed in October - December 2020







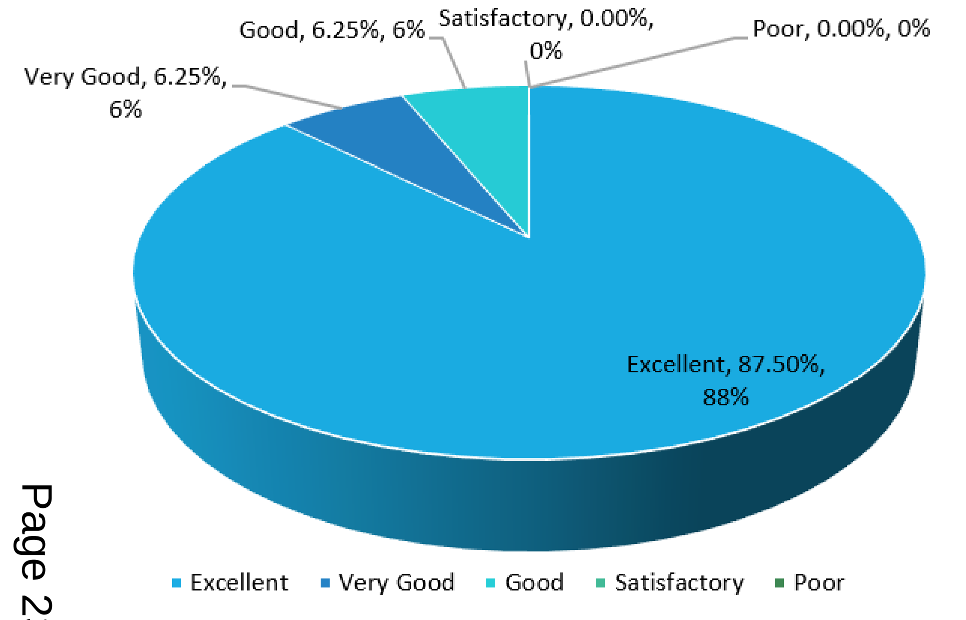


Member Services Team – Individual Pension Conversation Feedback 1st October – 31st December 2020

West Midlands Pension Fund

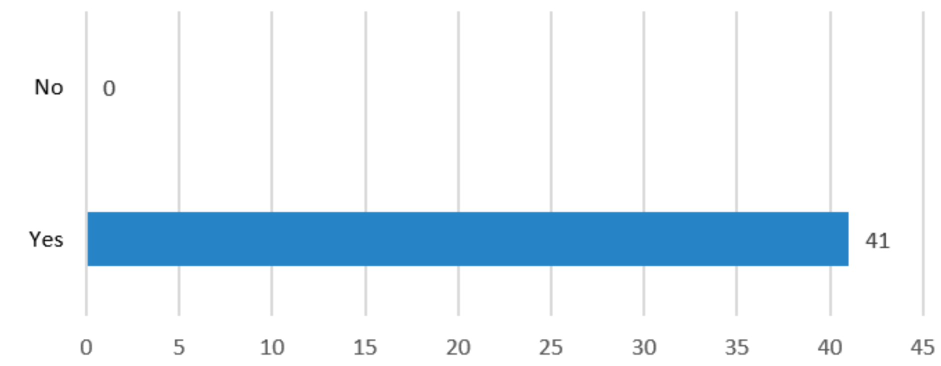
Members feedback on the following areas

How would you rate the officers general knowledge and skills?

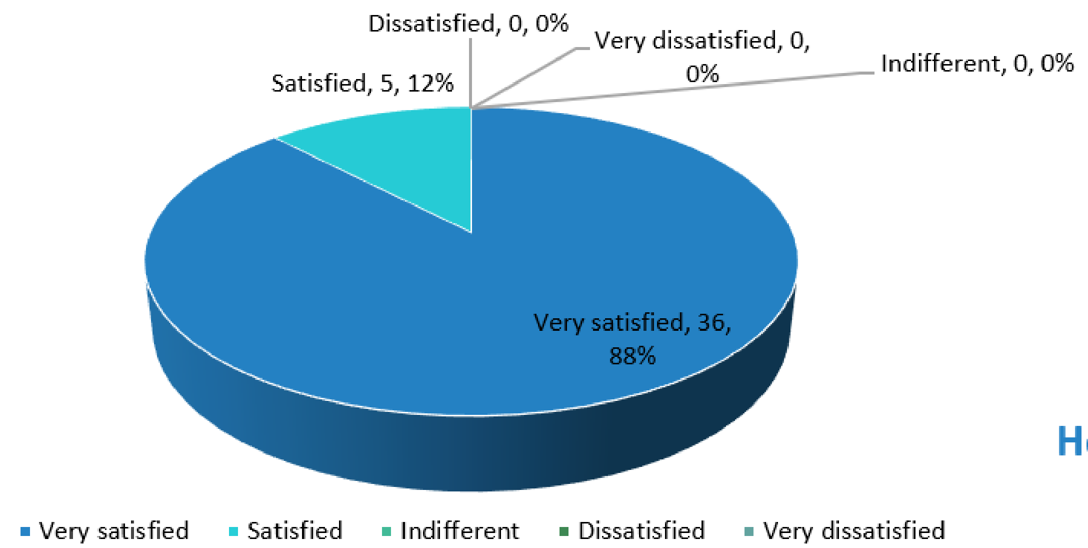


Members surveyed in October - December 2020

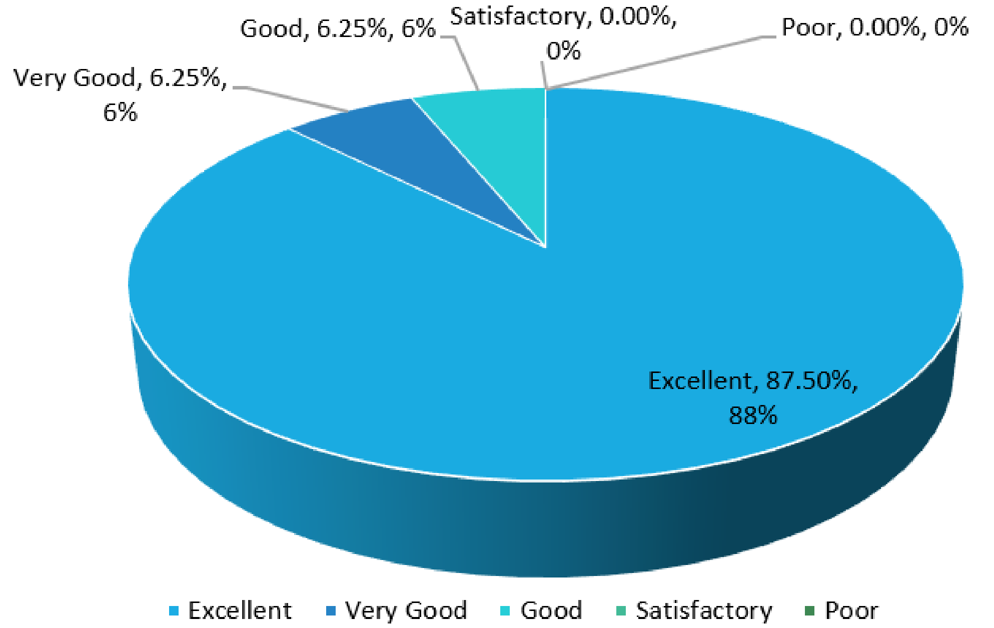
Would you recommend a colleague to attend this type of event?



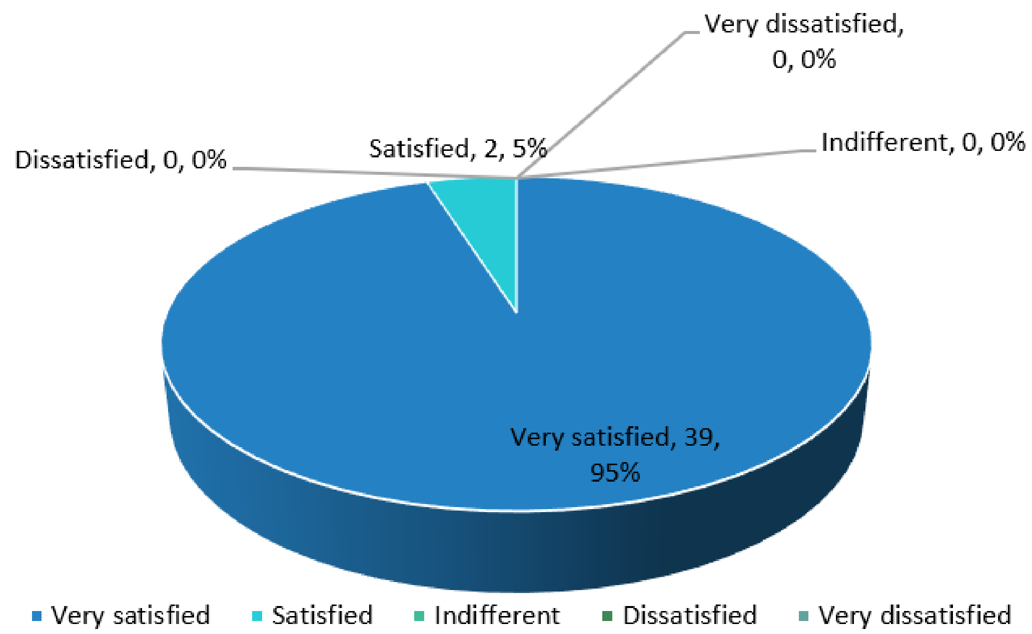
How satisfied are you with the overall service you have received from the West Midlands Pension Fund?



How would you rate the officers general knowledge and skills?



How satisfied are you with your most recent interaction with the WMPF?



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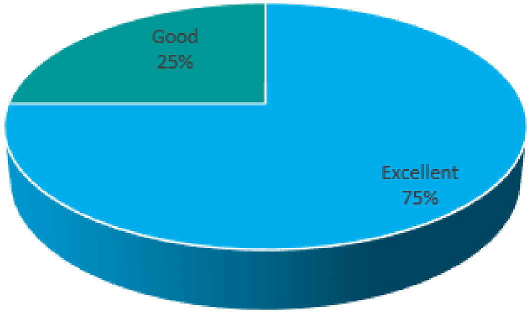
Appendix C

West Midlands Pension Fund

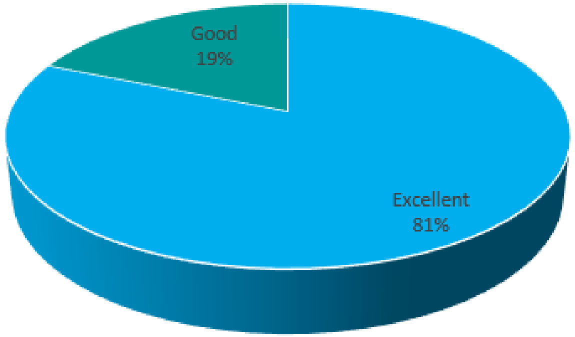
2020 Annual General Meeting Feedback – Employers

16 attendees provided feedback.

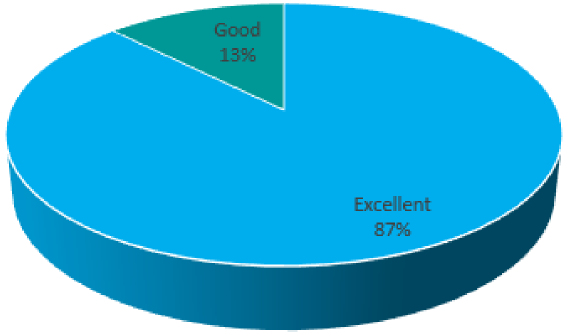
How would you rate the employers' virtual AGM?



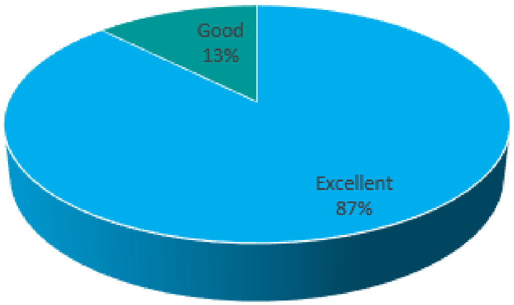
Please rate the ease of registration of the event.



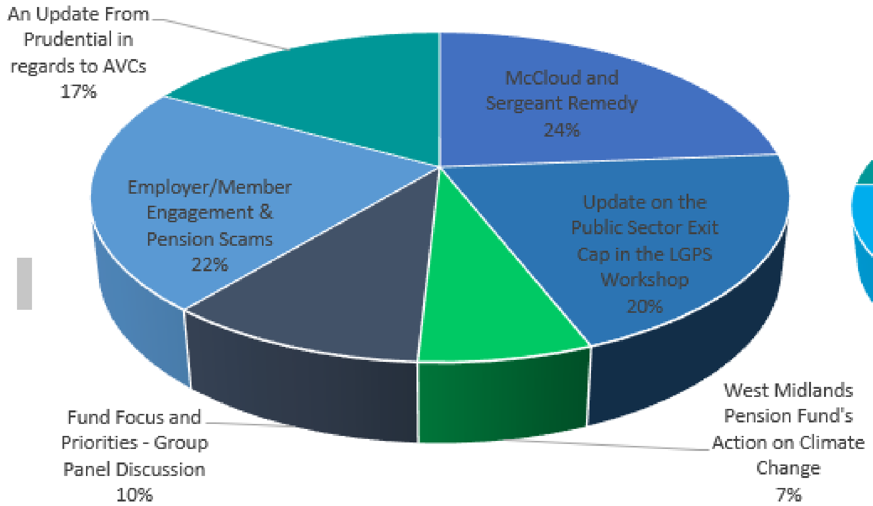
Please rate the quality of information provided?



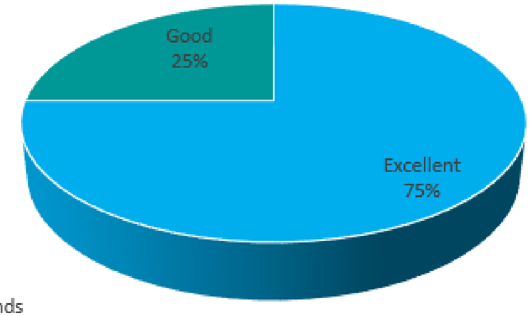
Please rate the presenters and pace of the event.

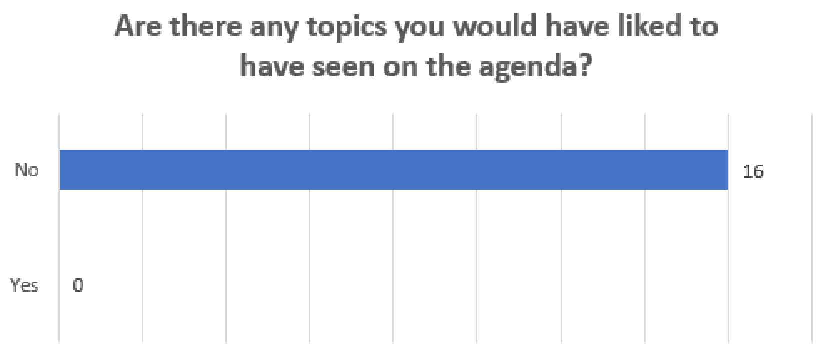


Which agenda item(s) do you feel were most relevant to your organisation?



Please rate the relevance of the event to your job role.





Additional comments:

- “The main one was Exit Cap and this was covered as much as possible”
- “The agenda was very informative, well done”
- “I was happy that everything I wished for updates about was discussed”
- “I think the AGM covered important and main topics and had the right amount of cover in all areas”
- “The agenda items were very topical. I felt that they were very appropriate for this AGM”
- “All the current and relevant pension topics were covered”

CUSTOMER ENGAGEMENT PLAN 2021/22

Appendix D

	January 2021	February 2021	March 2021	April 2021	May 2021	June 2021	July 2021	August 2021	September 2021	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022
Employer	1. Climate Risk Seminar	1. BASBM Conference	1. Year-End Requirements Issued 2. Employer Brief 3. Employer Peer Group 4. McCloud Briefing Note	1. Launch FSS 2021 2. Employer Survey	1. Accounting Disclosure Year-End 31 March	1. Employer Brief 2. Employer Peer Group 3. 2021 PAS Live	1. Employer Mid-Year Review	1. ABS Communications	1. Accounting Disclosure Year-End 31 July 2. Employer Peer Group 3. Employer Brief	1. Accounting Disclosure Year-End 31 August 2. Employer Survey 3. McCloud Data Collection	1. Annual General Meeting 2. Customer Engagement Strategy 2021 Live	1. Employer Brief 2. Employer Peer Group			1. Year-End Requirements Issued 2. Employer Peer Group 3. Employer Brief
				2022 Actuarial Valuation Preparation											
				Employer Health Checks											
		FSS Consultation		PAS Consultation						PSD Payment Reminders					PSD Payment Reminders
			PSD Payment Reminders												
	Employer Hub and Webtray Demos and Go Live														
				Roll out of increased Employer support and engagement (including electronic support and face to face where permitted)											
	Monthly Employer Webinars														
Member (active)	1. Pre-Retirement Workshops 2. Targeting Smaller Employers in Coventry to Provide Member Support 3. Dudley/ Coventry Webinars 4. Retirement Planning Campaign	1. W'hampton/ Birmingham Webinars 2. Pre-Retirement Workshops 3. Targeting Smaller Employers in Walsall to Provide Member Support 4. Pension Scam Awareness 5. Retirement Planning Campaign	1. Pre-Retirement Workshops 2. Upmost & Pru AVC Merge 3. Retirement Planning Campaign 4. Targeting Smaller Employers in Sandwell to Provide Member Support 5. Walsall MBC, Sandwell MBC & Solihull MBC Webinars	1. Pre-Retirement Workshops 2. Retirement Planning Campaign 3. Targeting Smaller Employers in Birmingham to Provide Member Support	1. Pre-Retirement Workshops 2. Retirement Planning Campaign 3. Targeting Smaller Employers in Solihull to Provide Member Support	1. Retirement Planning Campaign 2. Pre-Retirement Workshops 3. Targeting Smaller Employers in Dudley to Provide Member Support	1. Retirement Planning Campaign 2. Pre-Retirement Workshops 3. Targeting Smaller Employers in W'hampton to Provide Member Support	1. Annual Benefit Statements 2. Retirement Planning Campaign	1. District Roadshow 2. ABS Email Notification 3. Pre-Retirement Workshops 4. Retirement Planning Campaign 5. Pension Saving Statements	1. Pre-Retirement Workshops 2. Member Intention Survey 3. Depot Roadshows 4. Retirement Planning Campaign 5. Pension Saving Statements	1. Pensions Tax 2. Pre-Retirement Workshops 3. Active Newsletter 4. Retirement Planning Campaign 5. CWC Unpaid Leave Promo	1. Pensions Portal 2. Pre-Retirement Workshops 3. Christmas Card 4. Retirement Planning Campaign	1. Pre-Retirement Workshops 2. Retirement Planning Campaign	1. Pre-Retirement Workshops 2. Retirement Planning Campaign	1. Depot Roadshows 2. Pre-Retirement Workshops 3. Retirement Planning Campaign
	Presentations/One-to-One Consultations/Drop-in Surgeries and Marketplace Events, Post-Event Surveys, Webinars														
					Website Upgrade Work										
Member (deferred)	1. Target ID Verification	1. Pension Scam Awareness			1. AVC Statements	1. Deferred Benefit Statement (DBS) 2. DBS Email Notification 3. Deferred Webinars		1. Deferred Newsletter	1. District Roadshow 2. Pensions Portal Prize Draw 3. Pre-Retirement Workshops	1. Depot Roadshows	1. Pensions Tax	1. Christmas Card	1. Pensions Tax 2. Pensions Portal 3. Pre-Retirement Workshops	1. Pensions Portal 2. Pre-Retirement Workshops	1. Depot Roadshows 2. Pensions Portal 3. Pre-Retirement Workshops
	Presentations/One-to-One Consultations/Drop-in Surgeries and Marketplace Events, Post-Event Surveys, Webinars														
	Planned Portal Upgrade - Deferred Retire Online				Website Upgrade Work										
Member (pensioner)			1. Quarterly and Annual Payslips/P60s Issued 2. Pensioner Newsletter	1. Monthly Payslips/P60s Issued 2. Pensioner Newsletter		1. Quarterly Payslips Issued			1. District Roadshow 2. Pensions Portal Prize Draw 3. Quarterly Payslips Issued	1. Pensioner Engagement Forum 2. Target Overseas Tracing		1. Quarterly Payslips Issued 2. Christmas Card			1. Pensioner Newsletter 2. Quarterly Payslips Issued
	Monthly Payslips														
	Presentations/One-to-One Consultations/Drop-in Surgeries and Marketplace Events, Post-Event Surveys, Webinars														
				Website Upgrade Work											
Pensions Committee/ Pensions Board	1. Pensions Board Meeting		1. Pensions Committee	1. Pensions Board Training 2. Quarterly Briefing Note		1. Pensions Committee 2. Induction Training	1. Employer Mid-Year Review 2. Pensions Board 3. Quarterly Briefing Note		1. Pensions Committee	1. Pensions Board 2. Quarterly Briefing Note	1. Annual General Meeting	1. Pensions Committee	1. Pensions Board Meeting 2. Quarterly Briefing Note		1. Pensions Committee
		Training Events							Training Events					Training Events	
					Website Upgrade Work										

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COMMUNICATIONS POLICY STATEMENT MARCH 2021

Appendix E

West Midlands Pension Fund

COMMUNICATING THROUGH THE CORONAVIRUS PANDEMIC

The Fund's communication policy details the support which we provide and the different channels we use to engage with our customers. As a result of the pandemic and restrictions, in line with government guidelines preventing the delivery of face to face support to our members and employers in person, the Fund quickly utilised our digital communication channels and enhanced them to become the main methods of contact with our stakeholders.

Regularly communicating with our customers in order to provide them with support and reassurance over the last 12 months has been of paramount importance. As a result of a robust *Communications Plan* and *Customer Engagement Strategy*, our members and employers are still able to receive the support and guidance that they require.

Our dedicated telephone lines and email inboxes for both members and employers continue to remain open through the pandemic operating with no restrictions to our normal opening hours.

BACKGROUND

The West Midlands Pension Fund ("The Fund") is one of the UK's largest pension funds, managing and administering the pension interests of over 320,000 members and more than 700 scheme employers. We are administered by the City of Wolverhampton Council on behalf of all West Midlands local authority bodies.

Our core mission is to ensure that our members receive their pension benefits when they fall due. Through increasing dialogue with our customers in the Local Government Pension Scheme we work in partnership with employers in partnership with employers contributing together for our members' future. This plays a key role in enabling employers to meet their statutory responsibility to assist members planning their retirement.

This *Communications Policy Statement* outlines how we will communicate with our customers, ensuring information is provided in a clear and concise way, and is readily available.

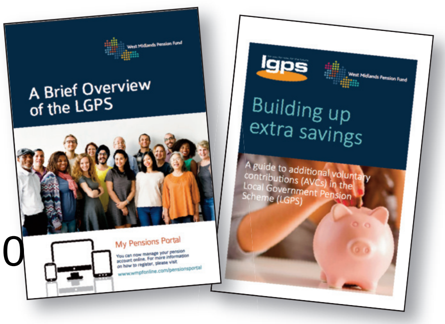
In April 2006, the Local Government Pension Scheme (LGPS) regulations were amended to state that each pension fund administering authority is required to prepare, publish and review regularly its communications policy statement, the regulations outline what funds are required to publish.

This document outlines our communications policy in line with that requirement, and covers the following categories in our regular communication activity:

1. Communicating with scheme members
2. Communicating with prospective members
3. Member self-service
4. Communicating with member's representatives
5. Communicating with participating employers
6. Communicating with prospective employers
7. Customer Engagement Strategy

1 COMMUNICATING WITH SCHEME MEMBERS

We produce an extensive range of scheme literature for all membership categories. Copies of scheme literature are made available on our website, www.wmpfonline.com/memberinfo with direct links to the national LGPS member site www.lgpsmember.org



Annual Newsletters

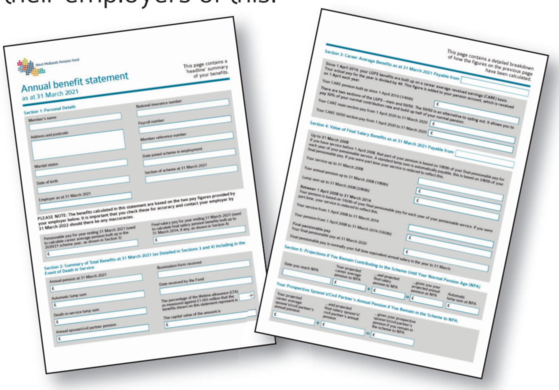
The Fund produces annual newsletters for our active, deferred and pensioner members.

These newsletters provide important updates and valuable member information.

Annual Benefit Statements

An annual benefit statement is made available online for all active and deferred members. These statements provide members with an update on the value of their pension benefits and a projection at normal pension age. Statements are made available through our pensions portal self-service facility. Benefit statements can be issued in paper form on request.

If there is an instance where a benefit statement cannot be made available, due to incomplete or inaccurate data, we will notify members and their employers of this.



Pensioner Pay Advice Slips

All Fund members in receipt of a pension receive a combined paper pay advice slip and P60 in April of each year. In the months of May through to March, we will only send a paper pay advice slip when there is a variance of £10 in their gross or net payment. For scheme pensioners that are paid quarterly and annually, we will issue a pay advice slip every time a payment is made (June, September, December and March).

Scheme pensioners can also register to use the Pensions Portal, where pay advice information can be viewed electronically and printed at any time following the payment date.

Customer Service Support

We understand that pensions can be complicated, that's why we have a dedicated Customer Services Team who are ready to support members through each stage of their retirement journey.

The team pride themselves on delivering an excellent customer service, providing tailored support through the following channels:

Phone: 0300 111 1665* (local rate number)

Email: through our www.wmpfonline.com/emailus page

Portal Secure Message: https://portal2.wmpfonline.com

In writing: West Midlands Pension Fund, PO Box 3948, Wolverhampton, WV1 3NH.

As well as the above, we also provide information on the Fund's website and facilitate a reception service where members can make an appointment to speak to a team member face to face.

*Our contact centre is open between 8.30am and 5.00pm Monday to Thursday and 8.30am to 4.30pm on Fridays (we are closed on bank holidays). The contact centre continues to maintain normal opening hours throughout the coronavirus pandemic.

Tea and Teach

The Fund holds Tea and Teach events that are aimed at our pensioner members and provide pensioners with the opportunity to openly discuss their pension queries, such as payment options.

Members get a warm welcome with tea and coffee.

Unfortunately, these sessions for 2020 were postponed due to the onset of Covid-19 and associated Government guidelines.

Surveys
Seeking feedback on the delivery of our services is key to continually improving the services we offer. In addition to the rolling survey which can be accessed through our website, we have launched bespoke customer feedback surveys which relate to our customer's most recent interaction with us (e.g. retirement, joiner, etc.).

The surveys help us understand our customer's journey, whilst highlighting areas of best practice, identifying potential service developments and, in turn, allowing us to continually improve our customer's experience.

Member Services Team

We have a dedicated team that provide support and guidance for all members. The team has extensive knowledge of the scheme and provides information through various methods including webinars, videos, presentations, face-to-face consultations and roadshows.

Support can be generally arranged at a time and place to suit our members and can be held at employer locations or at the Fund's offices in Wolverhampton.

Member Support

Drop-In Sessions
Members can attend drop in sessions held at their workplace for support and guidance in relation to their pension.

Individual Pension Consultations
Members can make an appointment with one of our Officers to discuss their pension options.

Presentations
The team offers a suite of presentations which include:

- Introductions to the Scheme
- LGPS & You
- Pension Tax
- Pre-Retirement
- Redeployment

Retirement Planning Workshops
We understand that there is more to retirement planning than your LGPS benefits, therefore, the team offers a workshop to provide support not only on the LGPS, but on other key areas such as tax and state pension.

Pension Roadshows
We host information events at employer locations across the West Midlands region. In addition to these roadshows at district council offices, additional events can be held on request, particularly when there may be organisational changes occurring which have pensions implications.

Roadshow events provide members with an opportunity to engage with Fund officers regarding their pension benefits. The team has a self-sufficient, purpose-built exhibition vehicle which is maintained and driven by Fund Officers and can be taken out to employers across the region. As an alternative to the face-to-face roadshow, and of particular relevance during the coronavirus pandemic, members can view the virtual roadshow event.

Literature is provided for members to take away, this includes general information on the LGPS, how to register for Pensions Portal, information on additional voluntary contributions, additional pension contributions, and much more.

We can assist employers in advertising events by providing e-posters or wording for intranet sites in advance to fully promote the roadshows.

Webinars

We understand that it is not always convenient for members to attend face-to-face events, therefore, we offer webinars to cover all the basics of the scheme and provide members with links and guidance to assist them to take control and plan their retirement. Webinars are run at various times to try and ensure all members have access to pensions support. This communication channel has significantly increased due to the impact of the pandemic and is now one of the main mediums we use.

2 COMMUNICATING WITH PROSPECTIVE MEMBERS

Scheme Booklet and Website

All prospective scheme members will be provided with a link to the Fund's website where they can access scheme booklets. Our website also provides information to help members make an informed decision about contributing to the LGPS, the 50:50 scheme and how to opt out of the scheme.

Corporate Induction Courses

We can attend corporate induction events across the region to present to prospective scheme members the benefits of being a member of the LGPS.

3 MEMBER SELF-SERVICE

The Pensions Portal

An online portal gives our members secure access to their LGPS record(s).

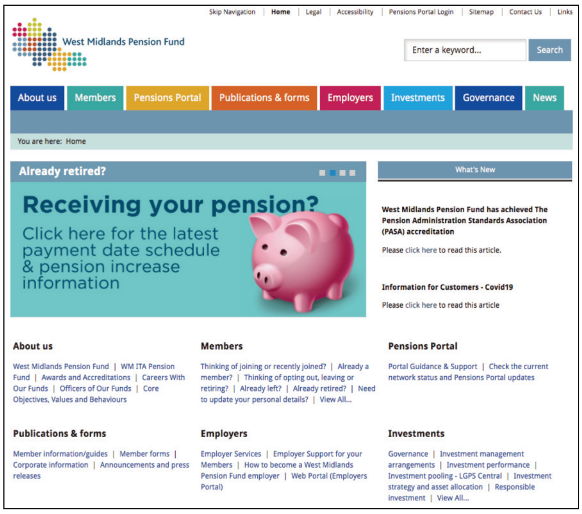
This facility provides members with an online platform to enable them to update their personal details and contact the fund about their benefits.

Also, members' annual benefit statements can be accessed, and members can run pension projections as well as update their nomination form.

The Fund's Website

www.wmpfonline.com

The Fund maintains an extensive online resource at wmpfonline.com containing information about the scheme and details about our current activities. There are also links to organisations such at The Prudential and the LGPS member site.



4 COMMUNICATING WITH MEMBERS' REPRESENTATIVES

Materials available to members are also available on request to their representatives or through wmpfonline.com

Trade Unions

We work with trade unions to ensure the scheme is understood by all interested parties. Training days for branch officers can be provided upon request, and the Fund ensures that all pension-related issues are communicated effectively with trade unions through their representative on the Pensions Committee.

5 COMMUNICATING WITH SCHEME EMPLOYERS

The Employer Services Team are generally the first point of contact employers have with the Fund and provide support to both participating and prospective employers.

With extensive pensions experience, the team are well versed in the issues that Fund employers face and are able to tailor their support accordingly. The team offers support by email and on the telephone, as well as offering regular coaching sessions, webinars and bespoke meetings.

Employer Services Team

e-Newsletter
An electronic newsletter, entitled *Employer's Briefing Note* is generally issued on a quarterly basis to all employers, including ad hoc *Briefing Notes* on specialist subjects. This is used to communicate the activities of the Fund and highlight any regulatory changes which may impact on the employer's function or their members' pension benefits.

Website and Web Portal
The Fund maintains a dedicated area of its website for scheme employers containing news, learning materials and other electronic resources.

Each employer can request to access the Fund's Web Portal (Employer Portal). This allows them secure access to the membership details of their current employees. The portal provides employers with the ability to make changes to member records including working hours and personal details. The portal also provides the facility to calculate early retirement estimates and any associated early retirement costs.

Dedicated Telephone Helpline: 0300 111 6516
A dedicated local rate employer phone line is provided for scheme employers. This allows the Fund to respond to employer generated telephone calls at peak times.

Annual General Meeting and Mid-Year Review for Employers
The Fund invites each employer to our Annual General Meeting each winter. This event is used to communicate strategic issues, performance, legislation changes and triennial valuation matters.

In addition to this, the Fund also holds a similar employer event each summer where employers are kept up to date with important issues through presentations and roundtable discussions.

Employer Peer Group
A quarterly working group consisting of Fund Officers and employer representatives from a cross section of the employer base that seeks to discuss proposed Fund developments in order to gain invaluable employer feedback and also invites attendees to raise subjects for discussion that affect the entire employer base.

Employer Coaching Sessions
The Fund offers face-to-face support in the form of full day coaching sessions to assist with the development of knowledge and understanding of the Fund, the web portal facility, Fund administration requirements and employer roles and responsibilities aligned to its Pensions Administration Strategy. Again, with the onset of the coronavirus pandemic and associated restrictions, these sessions have been conducted virtually and this medium will continue to be available going forward.

Employer Webinars
To complement the face-to-face coaching offered, the Fund also presents a series of monthly webinars designed to help employers in their day-to-day administration of the scheme. These webinars are ideal for new staff, new employers to the scheme or those staff that feel they would benefit from a bite-size refresher session on specific topics.

6 PROSPECTIVE EMPLOYERS

The Fund's Employer Services Team works with new and prospective employers throughout the onboarding process to help with their understanding of the obligations under the LGPS regulations. The team liaise with new employers to produce the necessary admission agreements, provide clarity regarding duties as a new scheme employer and encourages all new employers to attend either a full coaching session or the bite-size webinars, specifically the 'Fund induction for new Employers' Webinar.

There is also a dedicated area on the Fund's website to provide support new employers to the LGPS.

7 CUSTOMER ENGAGEMENT STRATEGY

In line with the Fund's objectives, the *Customer Engagement Strategy* plays a key role in ensuring the Fund drives continuous improvement and develops working practices, systems and processes which are informed and prioritised according to the needs of our customer base.

Ultimately, engaging with our customers helps the Fund to understand customer feedback, review and monitor service effectiveness, analyse performance, and develop and deliver a service that is focused on the requirements of our customers.

We actively engage with our customers to keep them informed about the scheme, the performance of the Fund in the delivery of its service, ensuring these meet both the legal and regulatory duty of scheme administration as set out in The Pensions Regulator's Code of Practice, and the Fund's own objectives for service development.

Our success is dependent on building and maintaining good working relationships with our employers and scheme members, and this strategy aims to ensure customer focus is embedded in Fund operations and exhibited in our behaviours.

Our strategy outlines:

- What customer engagement is to the West Midlands Pension Fund;
- Who we will engage with regarding the delivery of our services;
- The types of engagement activities we undertake;
- How the insights from customer engagement activities are used;
- How we feed back to our customers the results and actions arising from their engagement with us; and
- How our customers can engage with us.

West Midlands Pension Fund
PO Box 3948
Wolverhampton
WV1 1XP

Agenda Item No: 6

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report Title	Pensions Administration Report from 1 October to 31 December 2020	
Originating service	Pension Services	
Accountable employee	Amy Regler Tel Email	Head of Operations 01902 55 5976 Amy.Regler@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for decision:

The Pension Committee is recommended to:

1. Approve the 12 applications for admission from employers into the Fund and note the 3 cases approved by urgent decision by the Director of Pensions.

2. Approve the updated Internal Dispute Resolution Procedure.

3. Approve the write-offs detailed in section 13 of this report.

Recommendations for noting:

The Pension Committee is asked to note:

1. Performance and workloads of the key pension administration functions.

2. Development of the Fund's membership and participating employers.

3. The ongoing work to improve efficiency and ensure consistency of processing and record keeping.

4. The Fund's pledge to the Pension Regulator to combat pension scams and protect scheme members.

1.0 Purpose

1.1 To inform Committee of the routine operational work undertaken by the pensions administration service areas during the period 1 October to 31 December 2020.

2.0 Background

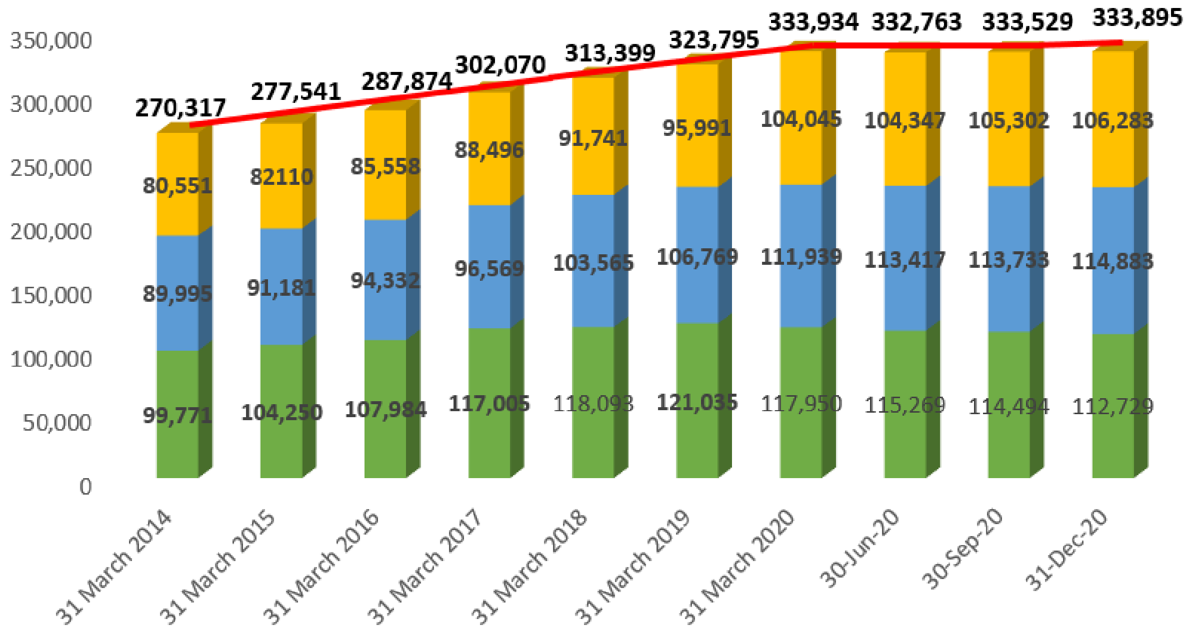
2.1 The Fund provides a pension administration service covering employer, customer and member services, data processing, benefit operations, payroll and systems/technical support. A report is provided to Committee on a quarterly basis to assist monitoring of the activity and performance of these functions during that period.

3.0 Scheme Activity

3.1 Membership Movement – Main Fund

3.1.1 The total number of scheme member records in the Fund at 31 December 2020 stands at 333,895, with an overall increase since September 2020 of 366. 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 2020	Net Movements during the period	Membership as at 31 December 2020
Active Members	114,494	-1,765	112,729
Deferred Members	113,733	1,150	114,883
Pensioner Members	105,302	981	106,283
Total Members	**333,529**	**366**	**333,895**



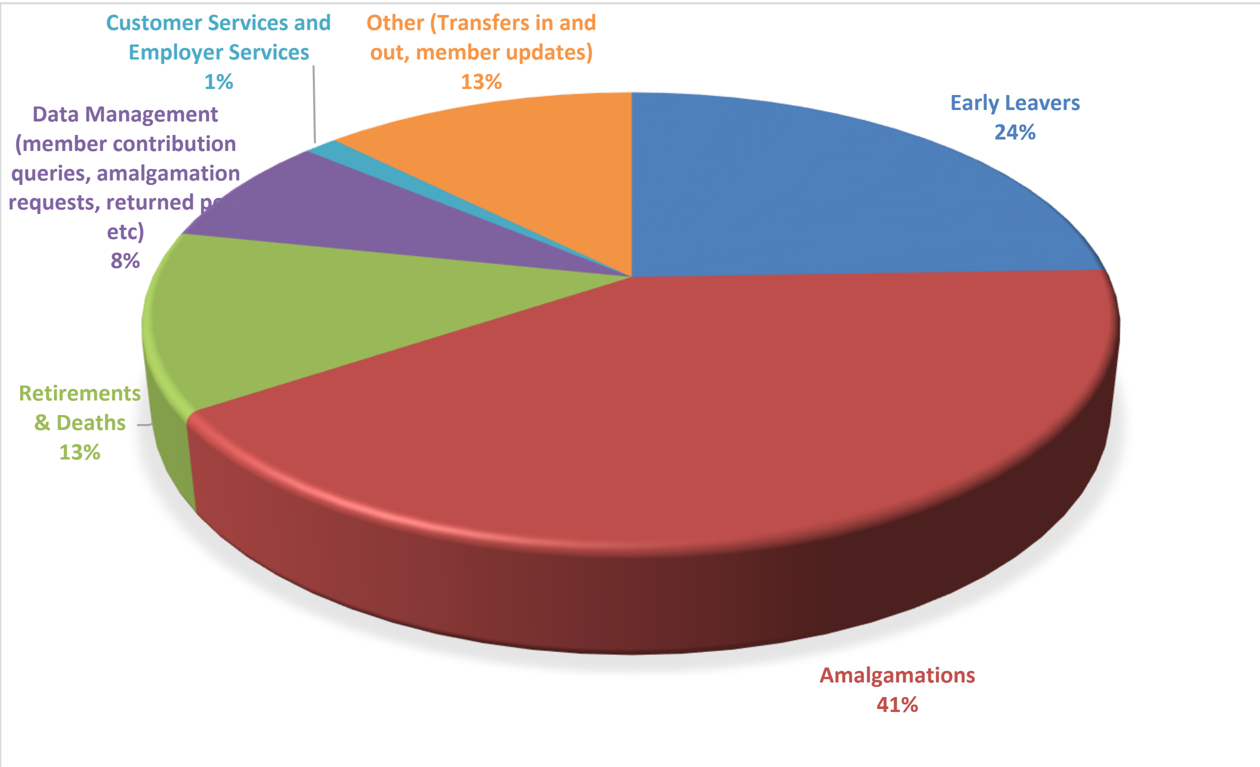
3.2 Workflow Statistics

3.2.1 The process analysis statistics (Appendix A) show details of overall workflow within the Pensions Administration Service during the period 1 October to 31 December 2020. During the period covered by this report, 37,499 administrative processes were commenced and 37,975 processes were completed.

3.2.2 On 31 December 2020 there were 46,480 items of work outstanding. This represents a decrease of 1,062 items outstanding compared to 30 September 2020 (47,542). Of the 46,480 items of work outstanding, 4,753 items were pending as a result of information awaited from a third-party e.g. scheme members, employers or transferring authorities and 41,727 processes are now either proceeding to the next stage of the process or through to final completion.

3.2.3 The impact of COVID-19 to date has seen the overall volume of incoming work and processes completed reduce compared to the same period last year. Since the last reporting period the Fund has started to see a return to normal volumes of casework. However, significant increases in the volume of deaths case work has been seen in December 2020 and January 2021. The Fund is monitoring workloads on a weekly basis, ensuring resource is reallocated as far as possible to maintain service delivery and mitigate the impact on timescales and performance relative to KPI targets. A summary of the processes started and completed is detailed in Appendix A.

3.2.4 The total number of processes outstanding remains high but continues to stabilise and can be broken down into the following key categories:



As shown in the graph above, most of the outstanding 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. Since June 2019, the fund has seen c72% increase in this type of casework.

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.

3.2.5 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.

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 December 2020 report to Committee, the programme continues to see 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

Following the introduction of a functionality to enable deferred members to run retirement estimates online, the Fund has been developing Phase two of this project, which will enable members to run a formal retirement quote and select their retirement options online. Following a period of testing, this development was moved into live towards the end of January. Within 24 hours of the facility being available, a member completed the process which was authorised by the Fund on the same day, with the member being placed onto the next available payroll. This demonstrates a real desire from members to self-serve through their online account. With enabling members to self-serve, potential efficiency savings of c30 minutes per case of officer time could be achieved. The Fund is monitoring the use of this facility with the aim of undertaking a communication programme to promote this facility in the coming months.

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 September, the system has successfully undergone security testing and the initial group of employers went live in December 2020. A phased programme to transition employers onto the new system is underway with c260 employers already live, from March 2021.

4.2.3 Employer Web Trays

Alongside the development of the new Employer Hub, the Fund has developed functionality to enable queries with data to be raised with employers via their online accounts with the process being sent to the employers' web-tray for action. This development supports the flow of information and assists in monitoring queries and resolution, providing insight to the development of employer communications and coaching material, supporting faster resolution. This functionality is being rolled out to employers as they move to the new Employer Hub.

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.

5.2 During the period the Fund performance fell short of the KPI target in the following areas:

- The notification of Death benefits in October, due to internal management of high volume casework.

- The issue of Deferred Retirement quotes in October and November. This is due to the increase in volume of notifications received from employers for active retirements in August and September, which impacted on the achievement of this KPI.

- Transfer in and Outs in November due to the introduction of new factors which required the system to be updated by our software supplier, meaning cases were calculated manually and therefore time consuming.

Other KPIs have been achieved across the period.

5.3 Further information on achievement of target KPIs by process by month over the reporting period is included in Appendix C.

6.0 Customer Services

6.1 An overview of our front-line customer contact activity is shown in Appendix D. This outlines the variety and volume of support provided by the Fund to address members' pension queries. An indication of the statistics for the previous year are included within the charts as a comparative measure.

6.2 The most popular queries to our contact centre remain as follows:

- Customers querying the status of an on-going process.
- Requests for Pensions Portal support.
- Enquires about accessing pension benefits.
- Request for support with a Fund Letter/Form.
- Members updating their personal details.

6.3 There have been vacancies within the Customer Services Team which have affected our call handling performance during the third quarter of this year. One candidate has joined the team in November, and we have further staff members joining the team in March. All new staff complete a detailed induction plan to ensure that training is as efficient as possible, minimising disruption to services.

6.4 Calls have continued at the usual rate for the period, however our written enquiries continue to increase. We continue to explore ways in which efficiencies can be identified to manage the customer contact received. A number of mailings have been issued during the period, and these have been issued in a phased delivery to members, smoothing the impact on the contact centre and reducing call queries / written response times, allowing us to better serve our customers and reduce waiting times.

7.0 Complaints

7.1 The Fund has a complaint monitoring framework, which enables regular monitoring, reporting of volumes and key trends for the key performance indicator. Where a complaint highlights an improvement area, this is investigated and monitored to help shape future services and improve overall customer satisfaction going forward. This mirrors the process undertaken for general customer feedback as outlined within the Customer Engagement Update.

7.2 The number of complaints received by the Fund is proportionally low compared to the number of scheme members, with 60 complaints received for the last quarter (very low across the membership). Of those complaints, 50% were upheld. This shows a downward trend compared to the previous reporting period.

7.3 There has been an increase in complaints compared to the same period last year, and these are largely relate to processing timescales and portal access. It is important to note that complaints are still generally lower than previous levels. Over the last three years, the Fund has developed services in a number of areas (from letters to working practices) based on the feedback received from members, improving overall services. We are also recruiting to increase capacity in a number of areas across the Fund, to reduce response times.

8.0 Internal Dispute Resolution Procedure (IDRP)

8.1 The Fund is required under the pension scheme regulations to have a process for dealing with internal disputes regarding members' pension benefits. The IDRP is a two-stage procedure and covers decisions made by both employers and the Fund.

8.2 The IDRP document sets out the procedure on how the Fund will work with employers in managing the internal dispute resolution procedure to the benefit of both employers and members. In 2020, the Fund undertook a review of the existing procedure as part of its regular review process.

8.3 The review has not required any changes to the procedure or the key steps to be taken, but focussed on the format of the information being presented to clarify the roles and responsibilities of both the Fund, independent adjudicators and the employer. For example, information has been transposed into flow charts to clearly set out the process for employers and members to follow.

8.4 A draft version of the proposed revised document was shared with the Employer Peer group in December 2020 for review and comment, where it was well received and the revised layout welcomed.

8.5 A final version of the updated procedure document is in Appendix E for Committee’s noting and approval.

8.6 **Current IDRP Casework**

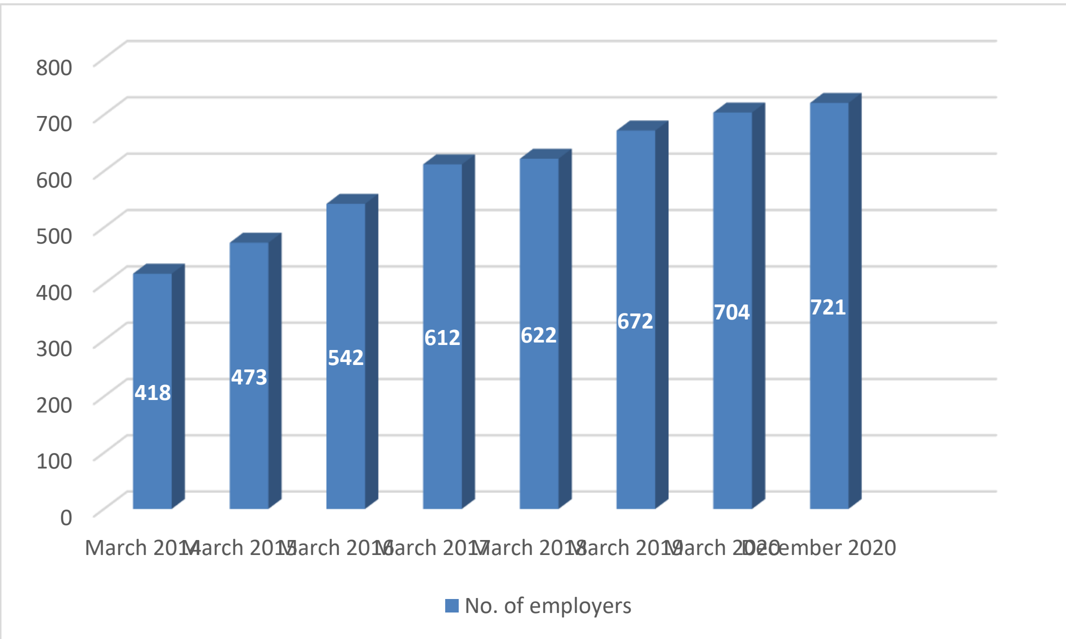
8.6.1 For 2019/2020, one case remains on-going which relates to a medical appeal and the Fund are continuing to liaise with the employer.

8.6.2 Year to date for 2020/2021, seven cases have been referred to stage one of the procedure, against the Fund, one case has been partially upheld, with five cases not being upheld and one case progressing to stage two.

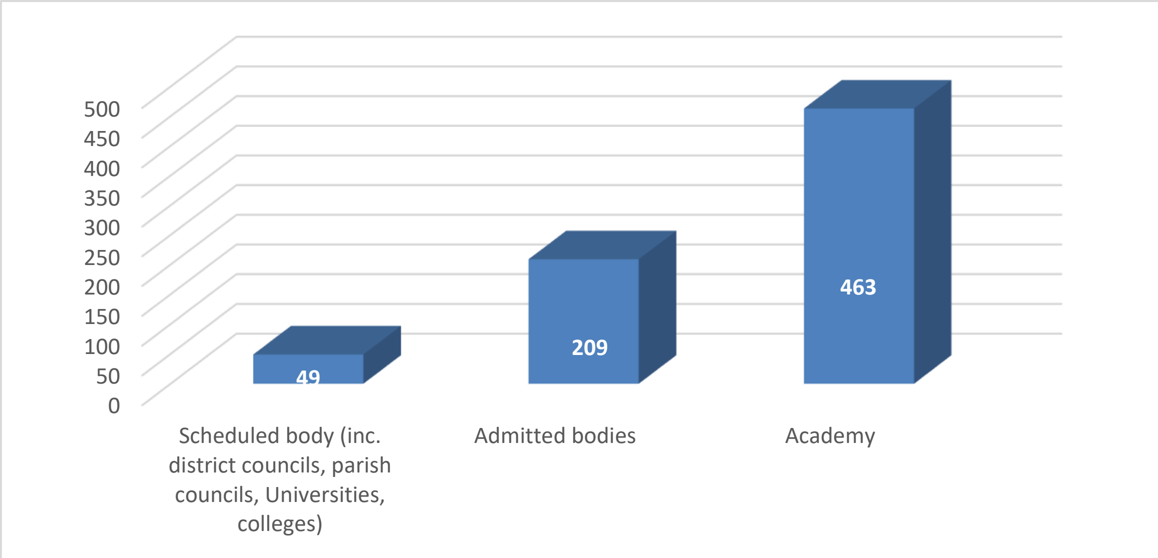
8.6.3 Five cases have progressed to stage two on appeal to the Fund; three of these cases have not been upheld and two cases are still under investigation.

9.0 Employer Membership

9.1 The Fund has seen an increase in employer numbers this reporting period, with the overall number of employers registered with the Fund as 721 at 31 December 2020, a 72% increase since March 2014 as shown in the graph below.



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



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

- 92 admission agreements
- 11 academies
- 51 employer terminations

10.0 Application for Admission Body Status

10.1 Organisations must satisfy one or more of the admission criteria before they can be admitted to the Fund following Pensions Committee approving the applications. Sometimes a decision is required which is not compatible with the cycle of Pensions Committee meetings. In these circumstances, Pensions Committee has delegated responsibility for approving such applications to the Director of Pensions in consultation with the Chair or Vice Chair of Pensions Committee.

10.2 There have been 14 applications for admission to the Fund, which have been requested and approved with new employers detailed in Appendix F.

11.0 Pensions in Payment

11.1 The gross annual value of pensions in payment to December 2020 was £567.48m, £15.73m of which (£8.03m for pensions increase and £7.7m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.

11.2 Monthly payroll details were:

Month	Number	Value (£)
October 2020	87412	£ 40,213,150
November 2020	87634	£ 40,215,561
December 2020	97465	£41,008,694

The December figure includes pensioners paid on a quarterly basis.

12.0 Overseas Existence checking – 2020/2021

12.1 The Fund has in the region of 1,600 overseas pensioner members, noting that overseas members cannot be traced using the same trace tools as those living in the UK, as the data sets typically used will not show information for an overseas person, even if that person is still a UK national. The Fund undertakes an annual Life Certification Process for Overseas pensioners, where we write out to pensioner members who are based overseas to confirm existence and their contact information.

12.2 In 2020/2021 the Fund engaged further with Target Professional Services, the current provider for member verification and tracing services, to utilise their digital services for our overseas members. This enabled members to undertake the process via traditional postal methods or via the mypensionID app.

12.3 Following the process, the Fund received a 87% verification success rate, with 22% of members utilising the digital app across 12 different countries. The age members who utilised the app ranged from 50 to 96 years old. The average age of respondents being 69, indicating broad member interest in engaging with the Fund electronically.

13.0 Write-off Policy Decisions

13.1 A write–off relates to pensions overpaid to members, after following the debt recovery policy, these cases become uneconomical to pursue or the estate has insufficient funds to recover. In general, an overpayment is generated by late notification of death of members.

13.1.1 A write-on relates to monies due to the members estate in order to make pension payments up to date of death. After correspondences, the legal representative is untraceable or does not wish to claim the funds.

13.2 **Write-off and Write on analysis**

13.2.2 The following write-offs and write on of pension payments are reported in line with the Fund's policy:

	Write Off		Write On	
Individual Value	**Number**	**Total (£)**	**Number**	**Total (£)**
Less than £100	1	18	3	70
£100 - £500	18	3423	5	735
Over £500	4	4368	1	751
TOTAL	**23**	**7809**	**9**	**1556**

Of the cases where the overpayment has been written off:

- 13 cases are where the Fund has not received a response or are unable to trace the Next of Kin.
- 5 cases are where the Next of Kin has stated there is no money in the estate to make the repayment.
- 3 cases the funeral was arranged by the council.
- 1 case the Next of Kin is now deceased.
- 1 case where the member had two records and the overpayment has been paid.

Of the cases where the underpayment has been written on:

- 6 cases the Fund has received no response from the Next of Kin or solicitor.
- 2 cases where the Next of Kin has not been able to be traced.
- 1 case where there is no Next of Kin.

14.0 Transfer Out Cases

14.1 During the period 1 October to 31 December 2020, 283 transfer values were issued to members considering transferring their benefits out of the scheme (previous 1 October to 31 December 2019, 293 transfer values were issued to members)

14.2 In total 30 transfer payments made during the period 1 October to 31 December 2020 resulting in a total amount transferred of £2.9 million (previous 1 October 2019 to 31 December 2019 a total of 59 transfer payments were made (£3.1 million was transferred out) This amount is broken down as follows:

Value of Transfer Payments	Number of Transfer Payments
0 to £30,000	16
£30,001 to £100,000	7
£100,001 to £200,000	2
£200,001 to £300,000	1
£300,001 to £400,000	1
£400,001 to £500,000	1
Above £500,001	2
Total	**30**

14.3 Analysis has been undertaken of the Transfer out payments to non-public sector or occupational schemes over the 6 month period of July through to December 2020 to review the volume and trends. During the period, a total of 34 transfer out payments have been processed, to a total of 15 different receiving schemes. The average age of members transferring out was 56 years, with the main reason for members transferring out with a value less than £30k was to consolidate their benefits. For those cases of higher value than £30k, the main reason was to access freedom and choice and to take part of pension savings as cash without having to put their pension into payment, which is not available in the local government scheme.

14.4 In light of recent industry concerns regarding the potential for increased pensions scams during this time, the Fund has implemented additional steps and measures within the processes for transfer out requests which includes an enhanced level of manager review before payment of funds is actioned. In addition, all key staff are undertaking the Pension Regulators' online training module on pension scams, providing guidance on key steps to take and how to identify potential scams.

14.5 As part of this, the Fund has pledged to the Pension Regulator to do what we can to protect scheme members and follow the principles of the Pension Scams Industry Group (PSIG) Code of Good Practice in so far as it applies to LGPS Funds. Pledging to combat pension scams confirms our intent to protect our members and demonstrates that the Fund are committed to stopping scammers in their tracks.

The pledge states that the Fund is committed to:

- regularly warn members about pension scams
- encourage members asking for cash drawdown to get impartial guidance from The Pensions Advisory Service
- get to know the warning signs of a scam and best practice for transfers by key staff completing the scams module in the Trustee Toolkit; studying and using the resources on the Financial Conduct Authority (FCA) ScamSmart website, TPR scams information and the PSIG code
- take appropriate due diligence measures by carrying out checks on pension transfers and documenting pension transfer procedures
- clearly warning members if they insist on high-risk transfers being paid
- report concerns about a scam to the authorities and communicate this to the scheme member

15.0 Financial implications

15.1 The report contains financial information which should be noted.

15.2 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.

16.0 Legal implications

16.1 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.

17.0 Equalities implications

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

18.0 Environmental implications

18.1 The report contains no direct environmental implications.

19.0 Human resources implications

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

20.0 Corporate landlord implications

20.1 The report contains no direct corporate landlord implications.

21.0 Schedule of background papers

21.1 None.

22.0 Schedule of appendices

22.1 Appendix A: Process Summary

22.2 Appendix B: Detailed process analysis

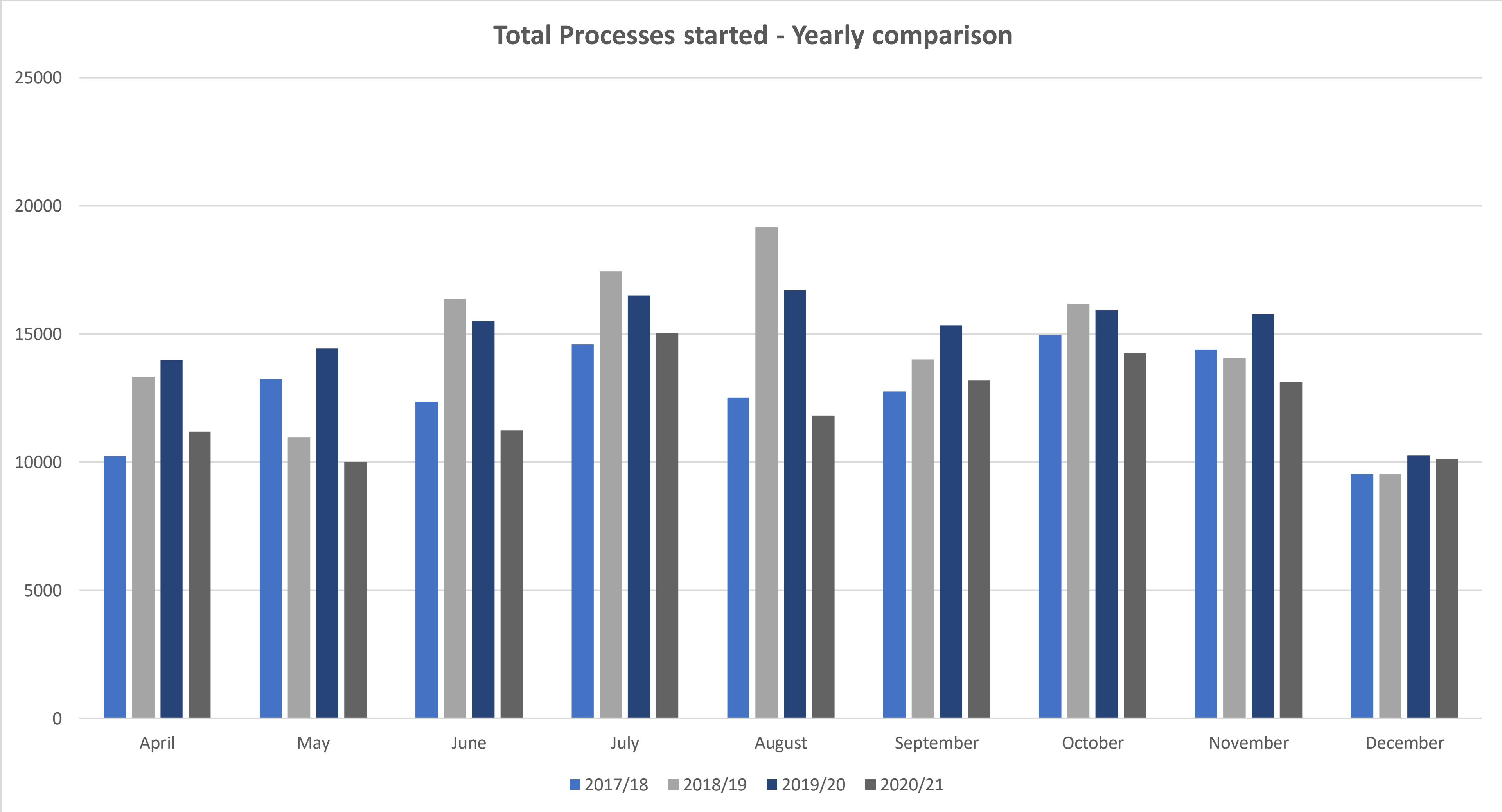
22.3 Appendix C: Key performance indicators (KPIs)

22.4 Appendix D: Customer services statistics

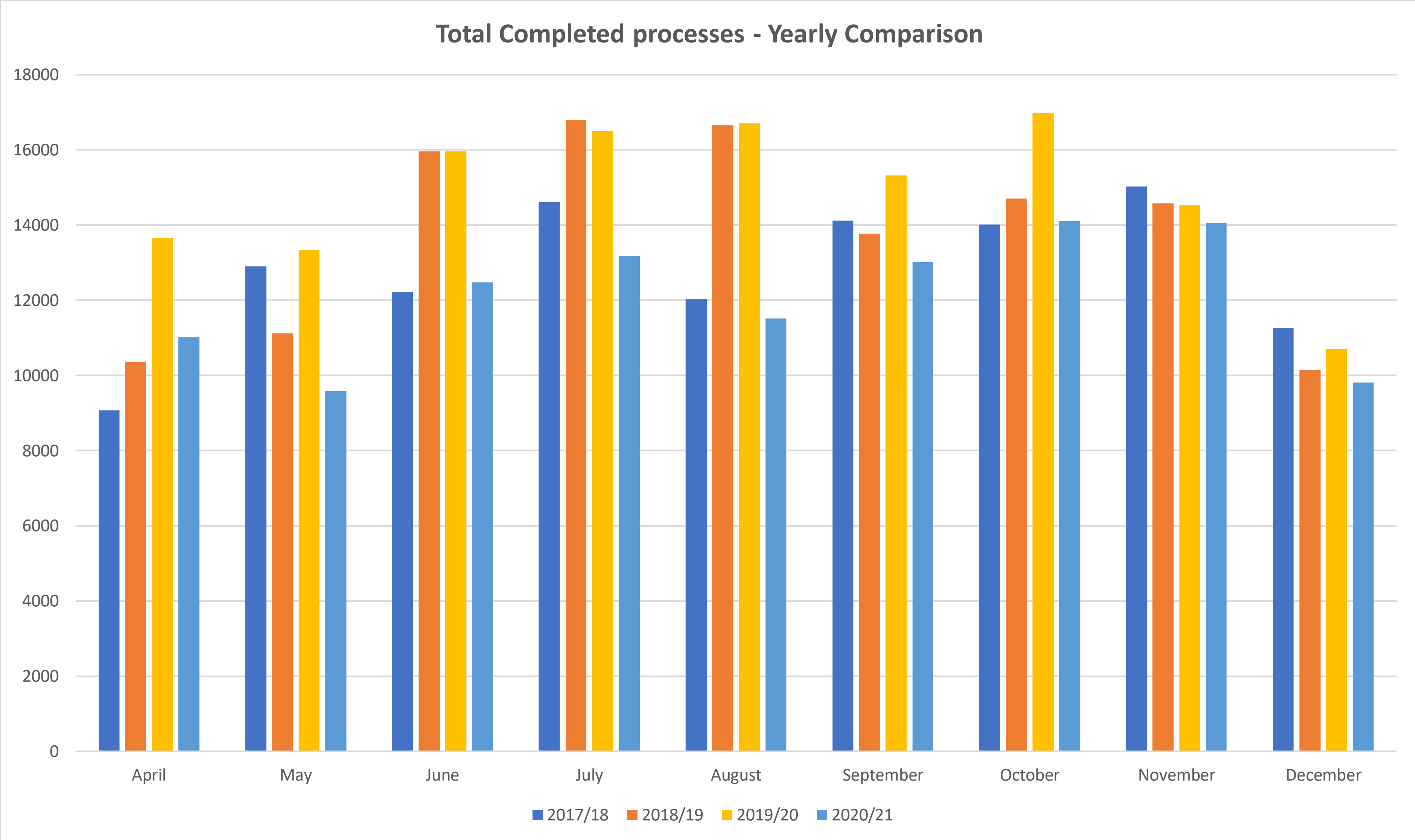
22.5 Appendix E: Internal Dispute Resolution Procedure Policy Statement March 2021

22.6 Appendix F: Applications for admission body status

Appendix A


Total Processes started - Yearly comparison
25000
20000
15000
10000
5000
0
April
May
June
July
August
September
October
November
December
2017/18
2018/19
2019/20
2020/21

Appendix A



Total Completed processes - Yearly Comparison
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
April
May
June
July
August
September
October
November
December
2017/18
2018/19
2019/20
2020/21

Appendix B

Pension Committee Statistical Report
Detailed Process Analysis

Active & Deferred members

Process type	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	April	May	June	July	August	September	October	November	December	YTD	YTD vs 2019/20
Joiners and Rejoiners (Bulk)	8,763	6,403	11,138	13,558	9,816	16,688	20,227	17755	25509	19939	1677	1099	741	1472	1757	2616	2157	2651	1458	15628	↑
Changes in circumstances eg change in hours	18,759	15,303	12,385	11,273	6,391	8,752	6,370	5386	5725	6658	347	311	519	554	504	535	531	468	219	3988	↓
Deferments	5,939	7,818	5,741	6,728	5,664	8,340	8,178	8629	15934	11994	974	688	642	747	616	881	1125	874	769	7316	↓
Active Retirements (Employer retirements)	3,317	3,950	2,475	2,279	2,351	2,775	2,593	2676	2280	2112	159	135	121	149	202	214	226	195	196	1597	↑
Deferred Retirements	3,332	2,970	2,971	2,726	2,301	3,421	3,552	4429	4814	5071	553	306	363	373	411	362	411	481	464	3724	↓
Deaths of members	295	262	287	285	230	379	399	470	429	441	41	38	50	34	27	37	56	60	33	376	↑
Refund										6877	332	346	359	261	260	536	500	377	413	3384	↓
Opt Outs										3585	80	59	99	68	124	167	139	82	109	927	↓
Amalgamations										11628	695	645	566	814	728	858	653	810	546	6315	↓

Pensioner members

Process type	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	April	May	June	July	August	September	October	November	December	YTD	YTD vs 2019/20
Changes in circumstances:-																					
Data eg Passwords, NI Numbers	1,310	1,804	1,865	2,017	2,604	4,548	2,427	3105	2694	1953	102	130	165	142	109	120	169	125	250	1312	↓
Changes of Address	2,420	2,681	2,131	1,732	1,733	2,237	2,589	3004	2628	2423	168	291	204	209	182	179	193	198	127	1751	↓
Changes of Bank	2,927	2,531	2,783	3,420	3,281	1,573	2,272	2214	1957	1874	107	132	117	89	104	139	160	102	207	1157	↓
Deaths of pensioners	2,085	2,145	2,101	2,546	2,454	1,702	2,813	2919	2793	2650	493	291	328	271	204	274	272	313	254	2700	↑

Payroll	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	April	May	June	July	August	September	October	November	December	YTD	YTD vs 2019/20
Actual number paid	792,724	837,189	870,804	895,018	913,864	888,954	915,275	945,196	979,819	1,019,295	86,596	86,460	95,847	86,791	86,960	96,665	87,417	87,626	97,458	811,820	↑

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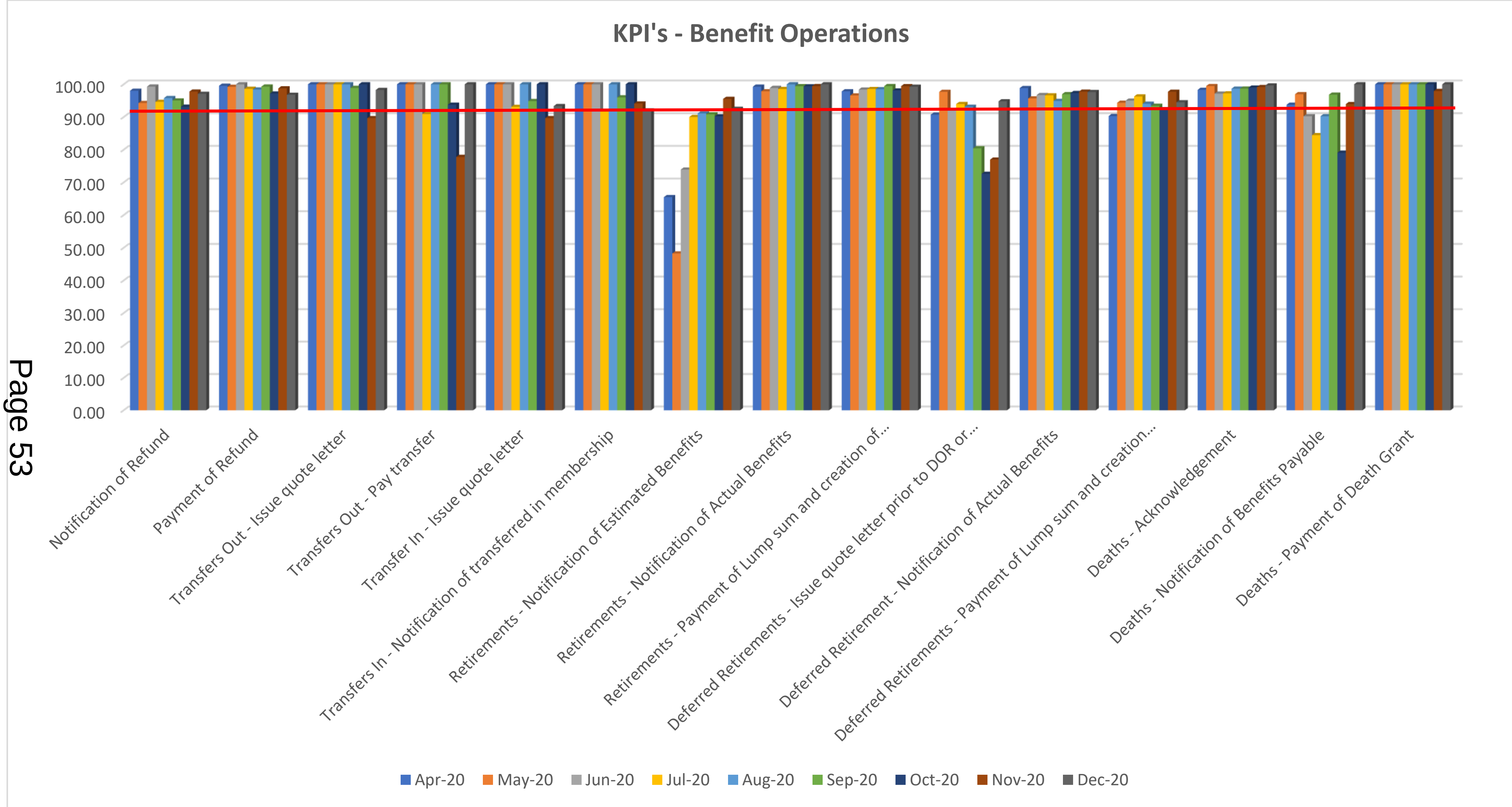
Appendix C



KPI's - Benefit Operations
100.00
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
Notification of Refund
Payment of Refund
Transfers Out - Issue quote letter
Transfers Out - Pay transfer
Transfer In - Issue quote letter
Transfers In - Notification of transferred in membership
Retirements - Notification of Estimated Benefits
Retirements - Notification of Actual Benefits
Retirements - Payment of Lump sum and creation of...
Deferred Retirements - Issue quote letter prior to DOR or...
Deferred Retirement - Notification of Actual Benefits
Deferred Retirements - Payment of Lump sum and creation...
Deaths - Acknowledgement
Deaths - Notification of Benefits Payable
Deaths - Payment of Death Grant
Apr-20 May-20 Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20

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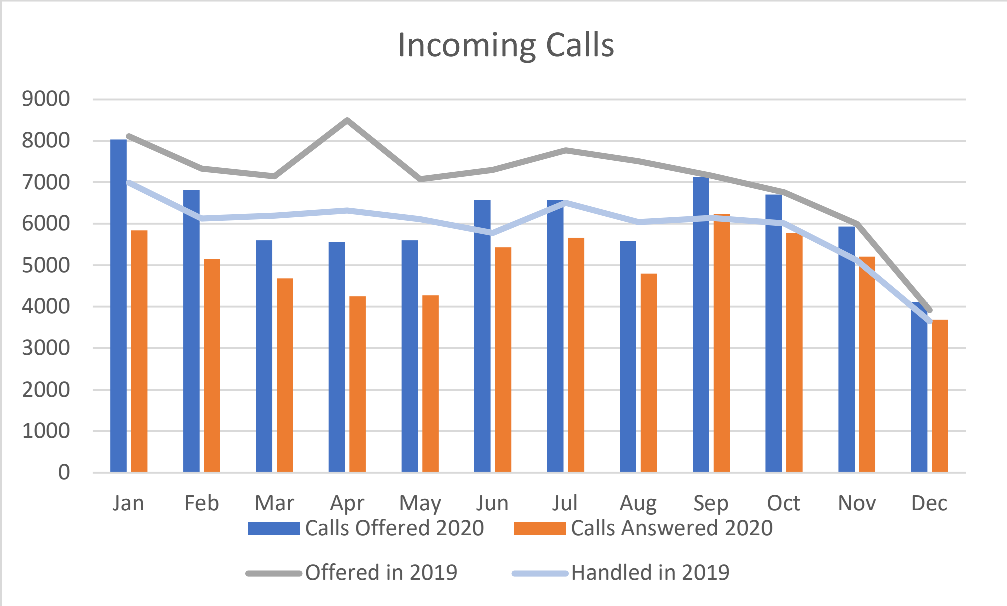
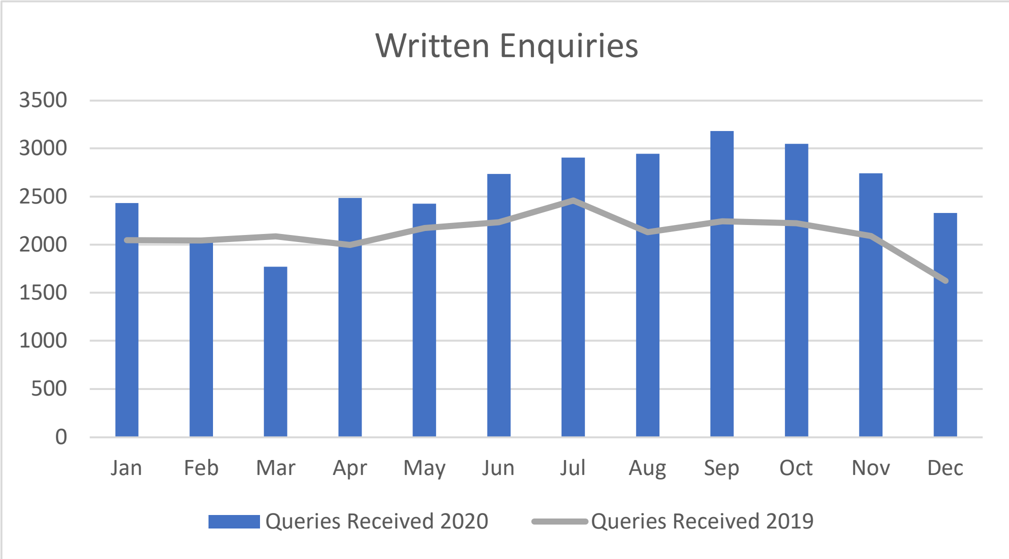
Appendix D: Customer Services Statistics
October - December 2020



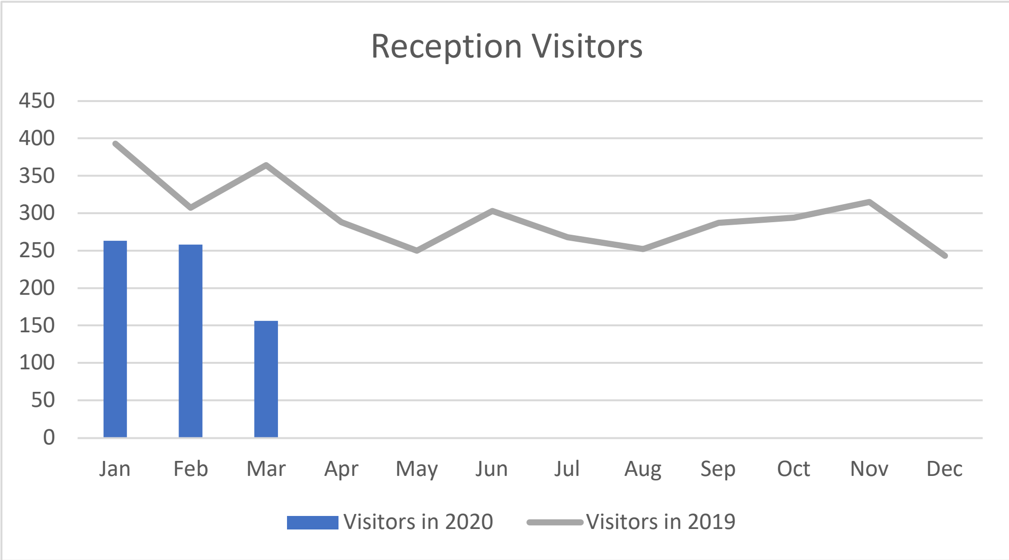
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Calls Offered 2020	8031	6812	5603	5552	5601	6572	6574	5587	7121	6705	5930	4109
Calls Answered 2020	5842	5149	4682	4252	4273	5426	5664	4798	6231	5776	5205	3688
Offered in 2019	8106	7325	7140	8494	7070	7294	7764	7503	7157	6753	5995	3920
Handled in 2019	6991	6120	6193	6315	6105	5773	6498	6042	6139	6010	5113	3651
Answer Rate (Target 85%)	72.74%	75.59%	83.56%	76.59%	76.29%	82.56%	86.16%	85.88%	87.50%	86.14%	87.77%	89.75%

Appendix D: Customer Services Statistics



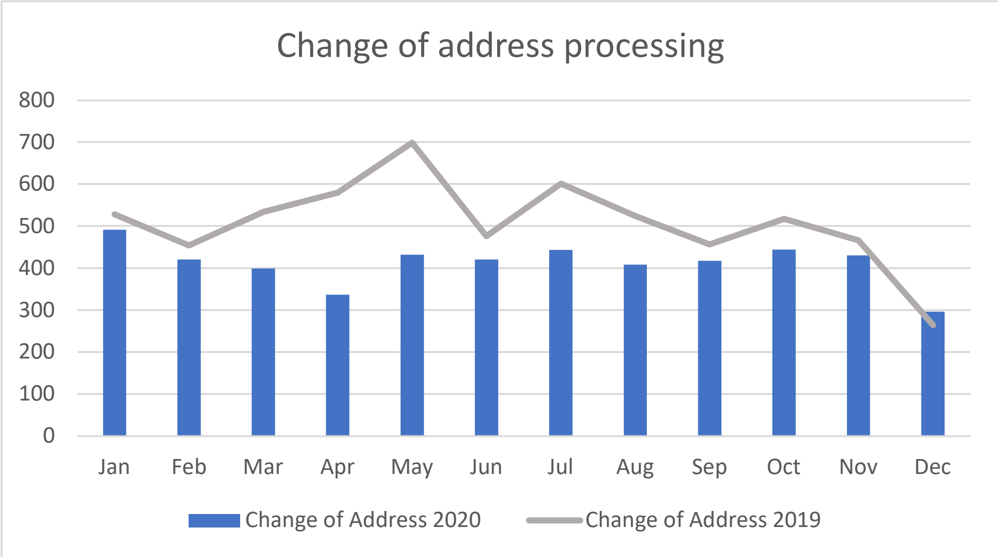
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Queries Received 2020	2431	2039	1770	2485	2427	2734	2904	2945	3181	3049	2741	2328
Queries Received 2019	2046	2044	2087	1997	2173	2234	2459	2129	2241	2224	2091	1627
Percentage increase	18.82%	-0.24%	-15.19%	24.44%	11.69%	22.38%	18.10%	38.33%	41.95%	37.10%	31.09%	43.09%

Appendix D: Customer Services Statistics



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Visitors in 2020	263	258	156	0	0	0	0	0	0	0	0	0
Visitors in 2019	393	307	364	288	250	303	268	252	287	294	315	243

Appendix D: Customer Services Statistics



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Change of Address 2020	491	420	399	336	432	420	443	408	417	444	430	296
Change of Address 2019	528	454	534	580	699	476	601	524	456	517	466	264

INTERNAL DISPUTE RESOLUTION PROCEDURE POLICY STATEMENT

MARCH 2021

West Midlands Pension Fund

As administering authority for the West Midlands Pension Fund (the Fund), the City of Wolverhampton Council is required under the pension scheme regulations to have a Fund process for dealing with internal disputes regarding members' pension benefits.

The IDRP is a two-stage procedure and covers decisions made by both employers and the Fund.

This document sets out the policy on how the Fund will work with employers in managing the internal dispute resolution process to the benefit of both employers and members. It covers:

- Who can raise a dispute through the procedure
- Types of dispute
- Roles and responsibilities
- Key stages and steps of the procedure
- Reporting and monitoring

All employers within the Fund are required to adhere to this document when undertaking their role in this process.

Information should be sent via email to wmpfIDRP@wolverhampton.gov.uk

WHO CAN USE THE DISPUTE PROCEDURE?

An individual can use this procedure if they fall into any of the categories below:

- **A member:** an individual paying into the Fund, or have retired and draw a pension from the Fund, or have left benefits 'on hold' with us
- **A prospective member**: not a member yet, but could become one if their employer brings them into the scheme, or they ask to join
- **A dependant:** the widow, widower, surviving civil partner, eligible cohabiting partner or child of a member or prospective member
- It can also be used by someone who believes they fall into one of the above categories or did so during the last six months.

TYPES OF DISPUTE – FIRST INSTANCE DECISIONS

From the day a member joins the pension scheme, various decisions are being made about their pension - both by the employer, and by the Fund. If the individual disagrees with a decision, they can dispute it.

Examples of decisions made by the employer include:

- Deciding whether an individual can retire on ill health
- Deciding the level of pay used to work out the individual's benefits
- Discretionary decisions

Examples of decisions made by the Fund include:

- Application of any discretions the Fund is permitted to enact - for example, whether or not to accept a transfer from another scheme
- Explaining how an individual is affected by the various scheme rules
- Calculation of benefits

Whenever a decision is made about an individual's pension, they should be informed about it in writing.

Other disputes
An individual can also dispute about other aspects of their pension, for example, if they feel that they haven't been given the information they need or think there has been an unreasonable delay in payment of their benefits.

ROLES AND RESPONSIBILITIES

Employer	• All employers must appoint a person (the adjudicator) to consider disputes under Stage 1 of the Internal Dispute Resolution Procedure (IDRP) • Provide full up-to-date contact details of the adjudicator to the Fund within 30 days of becoming a scheme employer or following the resignation of the adjudicator • Ensure the procedure is followed as detailed in this document • Appoint an independent medical practitioner to manage any ill-health disputes and ensure they are a suitable, capable, qualified and registered by the Fund in accordance with the pension regulations. • Inform the Fund on the receipt and completion of any Stage 1 cases, via wmpfIDRP@wolverhampton.gov.uk providing decision notices as required
West Midlands Pension Fund	• The Fund will appoint an appropriate officer(s) to undertake an independent review of Stage 1 and Stage 2 cases. • Ensure that all dispute Stage 1 (Fund) cases will be reviewed and the decision approved by the Director of Pensions • The Fund will monitor and report quarterly on all casework to the Pensions Committee and Pensions Board • In the case of a Stage 2 dispute, the Fund may appoint an independent adjudicator to review the case and recommend a decision • To ensure the procedure is regularly reviewed and kept up to date
City of Wolverhampton Council (as the administering authority)	• Ensure an independent review and approval of the decision of all Stage 2 casework is undertaken by the Director of Pensions and Chief Executive

KEY STAGES AND STEPS

Stage 1

Where an individual believes that the decision made in the first instance is unfair or they don't agree with it, they may invoke Stage 1 of the internal dispute resolution process using the appropriate form on the Fund's website.

Employer responsibility

Fund responsibility

Individual submits Stage 1 dispute resolution request

Dispute about an employer decision

Acknowledgement issued to the individual confirming timescales for receipt of outcome.

In the absence of an active employer, the Fund will undertake this process.

Notify the Fund by emailing the completed IDRP notification form to wmpfIDRP@wolverhampton.gov.uk This includes providing the name of the dedicated adjudicator at the employer and member reference details.

Fund to log the Stage 1 dispute

No further action will be taken by the Fund at this stage until the employer notifies that the complaint has been resolved or the deadline has been reached.

Review of the decision and details of the dispute raised by the member to be undertaken.

In cases related to ill-health retirement, it may be appropriate for the employer to appoint an independent registered medical practitioner to review the findings of the first instance decision. Where this is required, the employer will be responsible for ensuring the suitability and capability of the appointed professional. The independent registered medical practitioner must be qualified in accordance with the pension regulations.

If the employer believes that the timeframe notified to the member and the Fund is not going to be met, they must notify the member and the Fund as soon as they become aware that the deadline will not be met, and provide confirmation as to when the complaint will be resolved together with the reason for the delay.

Failure to meet the deadline or to notify of a delay will be taken by the Fund as non-compliance.

Decision on the outcome of the application for dispute to be communicated to the member in writing (within 15 days of the decision being made).

The target timescale for completing this review and informing the member of the decision is two months (from the point the receipt of the application).

A copy of the decision to be issued to the Fund to wmpfIDRP@wolverhampton.gov.uk

Dispute about a Fund decision

Fund to log the Stage 1 dispute.

Acknowledgement issued to the individual confirming timescales for receipt of outcome.

Review of the decision and details of the dispute raised by the member to be undertaken.

If the Fund believes that the timeframe notified to the member is not going to be met, they must notify the member as soon as they become aware that the deadline will not be met, and provide confirmation as to when the complaint will be resolved together with the reason for the delay.

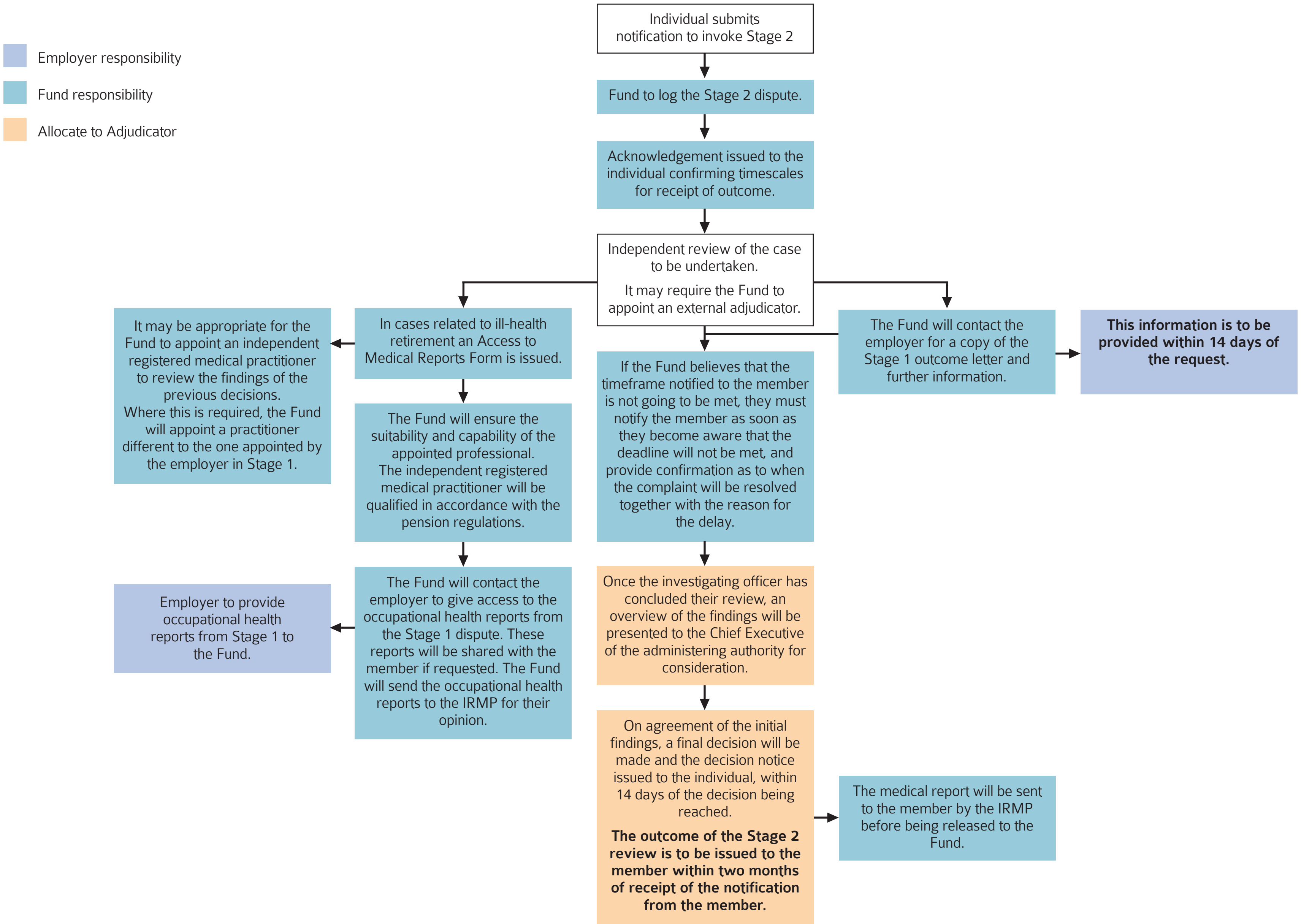
Failure to meet the deadline or to notify of a delay will be non-compliance.

Decision on the outcome of the application for dispute to be communicated to the member in writing (within 15 days of the decision being made).

The target timescale for completing this review and informing the member of the decision is two months (from the point the receipt of the application).

Stage 2

Where a member believes that the decision reached by their employer in Stage 1 is unfair or they don't agree with it, they may invoke Stage 2 using the appropriate form on the Fund's website of the decision they are disputing, together with their name, address and date of birth sending it to wmpfIDRP@wolverhampton.gov.uk



If there is a different outcome between the Stage 1 decision and the Stage 2, in accordance with the regulations the decision made by the administering authority will be presented back to the employer for review and consideration, except in the case of the exercise of a discretion.
The Fund cannot review the discretionary policy of an employer, only whether the decision has been made in line with the policy.

REPORTING AND MONITORING

All stage one and two appeal casework will be reported quarterly to the Fund's Pension Committee and Pension Board, along with the timeliness of their management.

Version	Date reviewed	Officer responsible
1.0	March 2016	Assistant Director Actuarial and Pensions
1.1	July 2017	Assistant Director Actuarial and Pensions
2.0	November 2020	Head of Operations
3.0	January 2021	Head of Operations

West Midlands Pension Fund
PO Box 3948
Wolverhampton
WV1 1XP

Appendix F: Application for admission body status

The following applications were approved by urgent decision by the Director of Pensions.

Admission agreements

- Aspens-services Ltd (Yarnfield Primary School)
- Mitie Cleaning and Environmental Services Ltd (Summit LT)

Bond

- Tarmac Ltd

The following 12 cases require Committee approval:

Employer name	Guarantee Status (Agreement)	No. of employees (Scheme members) Agreement type	Status (Approved/pending approval)
Aspens Services Ltd (Reedswood E-Act Primary Academy)	E-act	5 (4) Closed	Pending approval
Accuro FM Limited (Holy Cross MAC)	Holy Cross MAC	TBC (TBC) Closed	Pending approval
Coombs Catering Partnership Ltd (Lakey Lane Primary)	BCC	TBC (TBC) Closed	Pending approval
Caterlink Ltd (Fortis Academy)	Shaw Education Trust	6 (6) Closed	Pending approval
Mellors Catering Services Ltd (CORE Education Trust)	CORE Education Trust	34 (34) Closed	Pending approval
Coombs Catering Partnership Ltd (Court Farm School)	BCC	2 (2) Closed	Pending approval
Caterlink Ltd (Tudor Grange Academies Trust)	Tudor Grange Academies Trust	34 (TBC) Closed	Pending approval
Swanstaff Recruitment Ltd	Coventry CC	2 (2) Closed	Pending approval
Miquill Catering Ltd (SHINE academies)	SHINE academies	10 (10) Closed	Pending approval
Compass Catering Services Ltd (Small Heath Leadership Academy)	Star Academies	8 (8) Closed	Pending approval
Caterlink Ltd (Diocese of	Diocese of Coventry Multi Academy Trust	4 (4)	Pending approval

Coventry Multi Academy Trust)		Closed	
Urbaser Limited (Solihull MBC)	Solihull MBC	26 26) Closed	Pending approval

Agenda Item No: 7

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

24 March 2021

Report title	Governance and Assurance	
Originating service	Pension Services	
Accountable employee	Rachel Howe Tel Email	Head of Governance 01902 55 2091 Rachel.Howe@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Pension Committee is asked to note:

1. The latest strategic risk-register and areas being closely monitored in the current environment.

2. The compliance monitoring activity undertaken during the quarter.

3. The Fund's Key Performance Indicators and the action taken to support service delivery.

4. The steps taken by the Fund in response to the Covid pandemic and the ongoing assessment of service delivery impact.

1.0 Purpose

1.1 To provide Committee with an update on the work of the Fund to deliver a well governed scheme.

2.0 Risk Management

2.1 Strategic Risk Register

2.1.1 Following the identification and assessment of individual operational risks, the Fund's Governance and Assurance Team, working with Senior Managers, develop the overarching Strategic Risk Register, which highlights the themes of risk which have the potential to impact the Fund's delivery of its objectives.

2.1.2 There are 22 risks on the Strategic risk register, 6 of which are red and 14 are amber. The Fund has not seen an increase in the rating for any of its strategic risks during this quarter with 2 risks reducing, noting the controls in place and the active monitoring to manage the Fund's response.

2.1.3 Following review of operational risk maps, 2 risks have been removed from the Strategic Risk Register in relation to investment pooling which are considered to be resolved noting the monitoring undertaken as part of the overarching investment pool risk register, (with oversight from Funds' internal audit). The pool risk register is due for reporting to the next meeting of the Central Joint Committee in June 2021.

The Strategic Risk Register is attached at Appendix A.

2.2 Areas of Concern

2.2.1 Horizon scanning enables the Fund to identify, evaluate and manage changes in the risk environment, preferably before they manifest as a risk or become a threat to the Fund. Additionally, horizon scanning can identify positive areas for the Fund to develop its business and services, taking opportunities where these arise. By implementing mechanisms to horizon scan the Fund is able to respond to changes or emerging issues in a coordinated manner. Any areas identified as having a potential impact on the Fund's Service Delivery are added to the Fund's "Areas of Concern".

2.2.2 This quarter the Fund have added two new risks to its 'Areas of Concern', these relate to the new municipal year and the potential for movement on the Fund's governing bodies and the public agenda on investment management, noting the increase interest and awareness of pension scheme action on climate change and impact of the coronavirus pandemic.

2.2.3 Following the revocation of the Exit Pay Reform Regulations, this concern has been removed, however, we note the potential for amended proposals to be forthcoming which is considered as part of the ongoing monitoring of scheme change.

2.2.4 In addition, the Fund has also removed the Pension Regulator's Code of Practice review as a separate risk, noting this is included in the general awareness of regulatory oversight together with the proposed changes from the good governance review.

The Areas of Concern are attached at Appendix B.

3.0 Compliance Monitoring

3.1 Data Protection
This quarter the Fund is reporting five data breaches, one less than the previous quarter. All five of the breaches identified were minor and the Governance Team continue to identify actions in order to improve procedures and prevent further instances, this includes issuing Fund specific data protection training focusing on prevention of data breaches.

3.2 Freedom of Information (FOI) Requests
This quarter the Fund received six FOI requests, all of which have been responded to within the deadlines set by Wolverhampton City Council, who operate in accordance with statutory timescales.

3.3 Subject Access Requests (SARs)
This quarter the Fund has received three Subject Access Request, a 50% reduction from the previous quarter. However, it is noted seven third party requests for member information have also been received. As reported previously, the third-party requests for information were received from claims companies seeking information in connection with a member's decision to transfer out their pension to another provider. This issue has been highlighted as an area of concern through the Fund's horizon scanning process.

4.0 Annual Regulator Activity

4.1 In accordance with the deadline set by the Regulator, the Fund have submitted their response to the Pension Regulator's (TPR) Annual Governance and Administration survey. As reported to Committee in December, TPR use the survey to identify areas of risk and areas of good practice across public sector schemes as a whole. The results from the survey will be shared with Committee following publication alongside any areas of improvement identified through the results.

4.2 The Fund continue to await the issue of the Scheme Advisory Board's (SAB) Local Pensions Board survey which assesses the effectiveness and operational efficiency of Local Pension Boards. Details of the completion and results from both of these reviews will be reported to a future meeting of the Pensions Committee.

5.0 Key Performance Indicators

5.1 The Fund's KPIs for this quarter are attached at Appendix C and again notes a slight downward trend in some areas of operational and workload performance, with most processes remaining within and close to target KPI. As previously reported, this is linked to the current environment in which the Fund is operating and variability in incoming work, outlined in the reports presented to Committee.

6.0 Response to Covid-19

6.1 The Fund continue to operate a hybrid of office and working from home arrangements, with office use to support service area output. Employee wellbeing continues to be of primary focus with some office space provided to those who benefit from an office working environment.

6.2 In line with the Council's guidance, all employees are now required to wear face coverings when walking around the office with twice weekly lateral flow testing strongly encouraged for all persons working on site.

6.3 We will continue to monitor and follow Government guidance and review arrangements each week as the proposals to ease out of lockdown are implemented.

7.0 Financial implications

7.1 Poor management of the Fund's data, financial information and assets can result in additional costs and detract from investment returns. Effective monitoring of the management arrangements, facilitated by timely disclosure of information, is required to ensure the Fund is well placed to ensure the delivery of its administration, funding and investment strategy.

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

8.0 Legal implications

8.1 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.

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 The 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 Report to Pensions Committee December 2020

14.0 Schedule of appendices

14.1 Appendix A: Strategic Risk Register.

14.2 Appendix B: Areas of concern - Quarter 3 – 2020.

14.3 Appendix C: Key Performance Indicators – Quarter 3 monitoring.

West Midlands Pension Fund Strategic Risk Register

Risk Theme	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 monitors the ongoing environment through weekly senior management meetings with officers linking into the Council's wider Tactical Group Meetings. Regular employee communications are issued to remind of individual responsibility when working in the office together with regular well being bulletins issued by the Fund's staff forum.	↔
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 responsive to requests for information which may inform regulatory change and emerging guidance.	↔
	Investment Strategy and Implementation	Updated guidance expected from MHCLG with a number of consultations pending on Stewardship, Climate Change and Investment Pooling.	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. In addition, the Fund is also facing difficulties training and developing current staff at the present time due to the Covid-19 crisis.	This risk is assessed each year as part of annual Service plan and budget review process, with training and development opportunities monitored through individual appraisal and one-to-one employee support and training policy. New ways to deliver training 'virtually' have been developed and are being utilised where possible.	↔
		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.	↔
		Impact on capacity and resources in the event of further waves of the Covid-19 Pandemic resulting in disruption to resourcing and servicing.	Critical areas / functions have been identified and contingency planning is ongoing to support these areas in the event of further disruption, this includes redeployment of staff where appropriate	↔
	Operational Costs	Greater demand on service areas and pending scheme change 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 scheme change and development	The Fund regularly reviews its available resource and is recruiting to specialist roles in support of regulatory change work (McCloud)	↔
	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 with activity monitored monthly through KPIs. Progress on the delivery of key projects is monitored quarterly.	↔
	Cyber Security	The Fund retains a large of amount of personal data and financial information which could be impacted by a cyber attack	The Fund has developed an annual programme of assurance surrounding it's cyber risk and controls which includes an annual programme of testing. The Fund's internal audit team included this work in their annual plan to further build out the second line of assurance. The Fund has developed its own cyber security strategy.	↔
	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	The Fund is unable to pay pension benefits when they fall due due to inaccurate member data or respond to national and industry data disclosures (including those on investment data and cost reporting).	Monitoring and oversight of data and financial information supplied by employers; employer support and communication. The Fund is actively engaged with all stakeholders regarding the timely provision of data to facilitate its statutory reporting duty.	↔
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 have been actively undertaken through employer resilience surveys to identify and 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	WMPF 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. The Fund has been assessed for PRI achievement achieving A or A+ in all aspects of assessment.	↔
Reputational	Customer Delivery	The Fund is unable to respond to the changing demands of our customers and/or is unable to flex its approach.	Following the issuance of surveys the Fund has developed a suite of resources to support its customers, including the creation of E-Books, Webinars and online one-to-one interactions.	↔
	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 Cyber Security Strategy .	↓
		The Fund fails to hold accurate information leading to an inability to meet statutory reporting disclosures.	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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Appendix B

West Midlands Pension Fund Risk Register - Areas of Concern Q3 2020

Risk Theme	Specific Concern	Description	Level of Concern	Action taken	Movement
Pandemic	Covid 19	Impact of current global health concerns on the ability of the Fund to deliver services.	**Medium**	The Fund in response to the pandemic has changed a number of processes effecting more efficient working from home which supported its ongoing service delivery. Through these changes the Fund was quick to adapt to the announcement of a second lockdown. Attention now turns to preparing for lockdown exit and how to manage return to the office with considerations of priority service returns, changing patterns of work and ongoing employee well being following an extended period of home working.	↔
Regulatory	Public Service Pension Schemes: Changes to the transitional arrangements to the 2015 schemes	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 across the industry with an extended period over which changes may need to be backdated.	**Medium**	Focus now turns to the timescales for implementation, the complexity and resourcing needs to support with active recruitment of additional resource. A ministerial statement on implementation within the LGPS is expected following HMT publication in relation to the unfunded public sector schemes.	↔
	Regulatory Oversight	The outcome of the Scheme Advisory Board Good Governance Review suggests a greater level of oversight and reporting for LGPS Funds. In addition, the Pensions Regulator has commenced discussions on its review for a Single Code of Practice.	**Low**	The West Midlands Pension Fund is engaged in discussions at a national level with these bodies to ensure appropriate feed in and awareness of any proposed new regulatory compliance requirements.	↔
	Statutory Guidance	A number of statutory guidance are on the horizon in relation to the governance of investment management by LGPS Funds, a new Stewardship Code, a focus on investment governance coming from the tPR (including action on climate change)together with employer funding flexibilities and amendments arising from the new Pensions Schemes Bill.	**Medium**	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	A number of statutory changes and amendments are on the horizon which may affect the calculation of pension benefits and Fund investment governance and operations. Consultation on regulatory change and guidance for its application may impact on Fund resource requirements.	**High**	The Fund is fully engaged in all consultations with senior officers sitting on national working groups and assisting with the development of guidance. The Fund's Technical team continue to support in review of transitional arrangements while ongoing reviews of internal resource are being undertaken to ensure the Fund can mitigate impact on service delivery.	↔
	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.	↔
	Employer Resilience	Noting the unknown impact of Covid 19 on some Fund employers this remains a concern going forward as it is likely that the true impact in relation to funding, sustainability and employers' own resources will not be known for some time	**Medium**	The Fund has undertaken a series of engagements with Employers during this time, with the outcomes of surveys resulting in targeted engagement where identified as necessary.	↔
	Forthcoming Elections and annual appointments	Potential for change and loss of knowledge and experience within the Fund's governing bodies, Pension Committee and Local Pensions Board	**Low**	The Fund has a structured and bespoke training program to support new committee and local board members in developing their understanding of role and the function of the pension fund.	**NEW**
Reputational	Transfer out claims and Pension Scams	The Fund is seeing an increase in third party information requests (SARs) in light of an increase in review of historic transfer cases and scam risks across the pensions industry. The potential for these cases to escalate to claims of financial loss relating to poor member choices is a concern.	**High**	The Fund has seen an increase in requests for information from its members and is monitoring these requests and activity across the industry where there appears to be a number targeted requests from claims companies	↔
	Public agenda on investment arrangements	Increasing focus on the action required to respond to climate change and the impact of the pandemic on global economies and individual fund assets has longer term implications for investment returns and the Fund as asset owner.	**Medium**	The Fund continues to evolve is climate change and responsible investment strategy, recently publishing its TCFD report in December. The Fund continues to monitor investments and asset management arrangements in areas impacted by COVID-19	**NEW**

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Corporate Priority	Frequency	Description	Target	Lead Officer	End of Quarter 2 Performance	End of Quarter 3 Performance
Customer Engagement and Communication	**REFUNDS**					
	M	Notify member of Refund within 10 days of receiving required information	90%	Head of Operations	95.16%	93.91%
		Refund payments processed within 5 days of receiving required information	90%		98.80%	98.66%
	RETIREMENTS					
	M	Notification of Estimated Benefits within 15 days of retirement date	90%	Head of Operations	90.67%	92.14%
		Notification of the actual benefits within 5 days of receiving member option form	90%		99.33%	99.57%
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		98.89%	98.92%
	DEFERRED RETIREMENTS					
	M	Issue quote letter within 30 days of the members eligible payment date or receipt of request from member	90%	Head of Operations	89.23%	80.05%
		Notification of the actual benefits within 5 days of receiving member option form	90%		96.20%	97.58%
		Payment of lump sum and creation of payroll record within 5 days of receiving election form	90%		94.59%	95.16%
	TRANSFERS IN					
	M	Transfer in quotations processed within 10 days of receiving all the required information	90%	Head of Operations	95.60%	94.20%
		Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		95.52%	94.92%
	TRANSFERS OUT					
	M	Transfer out quotations processed within 20 days of receiving required information	90%	Head of Operations	99.59%	99.39%
		Transfer out payments processed within 20 days of receiving required information	90%		96.30%	91.43%
	DEATHS					
	M	Acknowledgement of a death within 5 days of receiving the notification.	90%	Head of Operations	98.17%	99.24%
		Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		91.28%	90.18%
		Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		100.00%	99.21%
	JOINERS					
	M	Membership record to be created within one month of receiving information from employer	95%	Head of Governance	100.00%	100.00%
	EMPLOYER AND MEMBER SERVICE - CALLS					
	M	Calls received to the customer helpline to be answered.	85%	Assistant Director Pensions	86.57%	87.59%
	M	Calls received to the employer helpline to be answered.	85%	Assistant Director Pensions	95.97%	95.64%
Customer Engagement and Communication	**CUSTOMER SATISFACTION/SURVEY**					
	Q	Customer satisfaction	90%	Assistant Director Pensions	95.42%	88.81%
	M	Web Portal Registrations	Target 90000	Assistant Director Pensions	101834	104901
	AVAILABILITY OF ONLINE SERVICES FOR MEMBERS					
	M	Pensions Portal, Employer Portal and the external website to be available for 95% of total working hours.	95%	Head of Operations	100.00%	99.91%
	COMPLAINTS MONITORING - MEMBERS					
	M	All complaints to be responded to within 15 working days of receipt	15 days	Assistant Director Pensions	97.14%	91.49%
	M	No of complaints to be less than 1% of total membership	<1%	Assistant Director Pensions	<1%	<1%
	COMPLAINTS MONITORING - EMPLOYERS					
	M	All complaints to be responded to within 15 working days of receipt	15 days	Assistant Director Pensions	100.00%	100.00%
	M	No of complaints to be less than 1% of total employer membership.	<1%	Assistant Director Pensions	<1%	>1%
Governance and Risk	**EFFECTIVE DECISION MAKING**					
	6M	Training hours of Committee and Pension Board		Head of Governance	99.51%	Bi-annual reporting
	6M	Attendance rate of committee and pension board		Head of Governance	78.18%	
	INFORMATION GOVERNANCE					
	Q	Statutory response timeliness	100%	Head of Governance	100.00%	90.91%
Strategic Asset Allocation and Performance	**INVESTMENT RETURNS/OVERALL FUND PERFORMANCE**					
	Q	**Main Fund** - Returns to be 0.5% above the benchmark (3 Yr. Rolling)	+/- 0.5%	Assistant Director Investments	-1.47%	-1.38%
Data Management	**DATA QUALITY**					
	M	Common Data	99%>	Head of Governance	97.27%	Bi-annual reporting
		Scheme Specific Data	95%>		91.95%	
	DATA IMPROVEMENT					
	A	ABS produced for 100% of active member records	100%	Head of Operations	95.00%	95.00%
		DBS produced for 100% of deferred member records	100%		91.95%	91.95%
Financial management and cost transparency	**CONTRIBUTIONS RECEIVED**					
	M	**Main Fund** - Contributions received from employers and validated by accountancy statement	98%	Head of Finance	98.84%	Not available at the time of reporting
	QUARTERLY ACCOUNTS					
	Q	Days taken to prepare quarterly accounts (Main Scheme)	30 days	Head of Finance	32	Not available at the time of reporting

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Agenda Item No: 8

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report title	Regulatory Update	
Originating service	Pension Services	
Accountable employee	Rachel Howe Tel Email	Head of Governance 01902 55 2091 Rachel.Howe@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pension Committee is asked to note:

1. The updates to the current regulatory environment within the LGPS and how the Fund are responding to change and emerging developments within the Scheme and wider pensions industry.

1.0 Purpose

1.1 To provide the Pensions Committee with an update on key developments currently impacting the regulatory environment in which the Fund operates.

2.0 Regulatory Updates

2.1 **Public Sector Exit Payments (£95k) Cap**

2.1.1 The Restriction of Public Sector Exit Payment Regulations came into force on 4 November 2020 with the short timescale for implementation causing concern amongst the public sector with little or no notice for individuals, employers and pension funds to prepare for the changes (which included a need to amend administration software systems to enable the amended calculation of benefits where necessary as a result of the limit). Further, concerns about the exit payments capturing long serving, average salaried workers had not appeared to have been included in the considerations on drafting the regulations and due to the nature of Local Government Pension Schemes and rules governing the protections of pensions through TUPE, there was also the added complexity of the exit payment regulations not applying (in full or in part) to all Fund employers (as not all are public sector organisations).

2.1.2 On 12 February 2021, Central Government sought to revoke the Exit Payment Regulations and disapply the cap to those leaving public sector service employment with immediate effect, with the regulations being formally revoked on 25 February 2021. MHCLG issued a follow up letter to Funds on 4 March 2021 withdrawing its letter of 28 October 2020 (in which it outlined its interpretation of the Exit Payment Regulations and their application to LGPS Funds). This latest letter also confirms that the consultation on Reforming Exit Payment Regulations is now closed with any future changes requiring a new and separate consultation.

2.1.3 The revocation regulations contain an obligation for employers to make payments to employees who left during the period between the original regulations being implemented (4 November 2020) and the date of the revocation regulations coming into force. Such payments being the difference between what was paid, and the exit payments that the employee would have been entitled to if the Exit Payment Regulations not been in force. The Fund had been amending its processes and issued communications to employers which would have alerted the Fund to any member impacted by the Exit Cap. At the time of writing the Fund is not aware of any members who have exited with restricted payments. The Fund, following the announcement of the revoked regulations, has since amended its processes back and has been working with employers to prepare communications on the disapplied regulations. Communications to members have been maintained through our website.

2.1.4 While the Exit Payment Regulations have been revoked, it is anticipated that an amended approach may be forthcoming in the management of exit payments of public sector employees, with the potential for consultation to be recommenced on new proposals in the coming months.

2.2 Scheme Advisory Board – Good Governance Review

2.2.1 On 15 February 2021 the Scheme Advisory Board (SAB) published phase three of their Good Governance Review, conducted in conjunction with Hymans Robertson. As previously reported to Committee, the aim of the review was to improve governance standards across all LGPS funds. Recommendations from Phase two of the report were approved by the Scheme Advisory Board on 3 February 2020, with phase three delayed due to Covid-19.

2.2.2 The report includes a series of recommendations which have been categorised into the following areas;

- General, including the changes to statutory guidance in order to implement good governance recommendations, the introduction of a single named officer for responsibility of LGPS activity and additional requirements with regards to LGPS governance and compliance statements.
- Conflicts of Interest, the production of a conflicts of interest policy that includes details of how actual, potential and perceived conflicts are addressed within a Fund’s governance arrangements.
- Representation, the introduction of a policy outlining the parties invited to join, participate and vote on governing bodies.
- The introduction of knowledge and understanding requirements for key individuals in the LGPS, including officers and Pension Committee members.
- Service Delivery for the LGPS Function, the documentation and publication of key roles and responsibilities in relation to the LGPS, and the requirement to report performance against an agreed set of key performance indicators.
- Independent governance assessment, the requirement to undergo a biennial independent Governance review.

2.2.3 SAB have now formally written to MHCLG highlighting the actions they are recommended to implement, by either amending scheme regulations or producing statutory guidance in order to take the review forward. Details of MHCLG’s response will be reported to a future meeting of the Pensions Committee, along with progress on the Fund’s review of current practice against the recommendations made in the Good Governance report.

2.2.4 In reviewing the outcomes of the report, the Fund has undertaken an appraisal of its Governance to identify areas for enhancements, noting what the Fund already has in place. To elaborate, the Fund already has a training and development policy for its officers and governing bodies, as well as a clear management and leadership structure, having regularly undertaken external review of its Governance arrangements over the last five years. Work will continue on developing its reporting in these areas with an updated Governance Compliance Statement being prepared for presented to June Committee as part of the annual policy review cycle.

2.3 The Pensions Regulators (TPR) Single Code of Practice

2.3.1 The Fund are awaiting the Regulator's consultation on their single code of practice, as previously reported to the Committee, TPR are reviewing their codes of practice with the intention of combining the current 15 codes to form one single code of practice.

2.3.2 It is the intention that the formation of one shorter, single code of practice will make codes of practice quicker to find and update, enabling scheme managers to be more responsive to changes in regulation.

2.4 MHCLG, consultation and legislation.

2.4.1 The Pension Schemes Act 2021 (the Act) came into force on 11 February 2021 and with it brings new powers for TPR, including inspection and interview powers to support their existing information gathering role when conducting reviews of schemes.

2.4.2 The Act also includes requirements to ensure effective pension scheme governance is in place in relation to managing the risks of climate change, with the Department for Work and Pensions (DWP) undertaking a consultation on the governance and reporting of climate risk in occupational pension schemes. The Fund is responding to the DWP consultation with the expectation that MHCLG statutory guidance will be forthcoming for consultation later this year.

2.4.3 The Act introduces statutory requirements facilitating the operation of pensions dashboards (on which the Fund participated in data design discussions), through which individuals will be able to access information about all their pensions in one place.

2.4.4 One key development is in relation to pension transfers and heightened tests for transferring schemes, to aid in the protection of members from pension scams. Committee will be aware that this is an area of watch for the Fund, noting the number of third party requests for information received from claims management companies in the last six months. The Fund, in conjunction with other LGPS Funds, has raised concerns with the FCA over the conduct of these companies, in particular their apparent lack of understanding of the LGPS benefit structure and the tie in for members to pay a success fee.

2.4.5 MHCLG are further running a consultation on the proposed minimum pension age. This normal minimum pension age is the minimum age at which most pension savers can access their pensions. It is currently age 55 and is reflected within the LGPS regulations. Contained within the consultation documents, the Government has reconfirmed its intention to legislate to increase the normal minimum pension age to age 57 on 6 April 2028. It states that increasing the normal minimum pension age reflects increases in longevity and changing expectations of how long persons will remain in work and in retirement. It is reflective of the increase in state pension age (with the minimum age historically being 10 years prior to normal pension age).

3.0 Financial implications

3.1 Further consideration may need to be given to the Fund Budget depending on the nature of change requirements for implementing regulatory change. There is the potential for cost pressures on the Fund.

3.2 The measures to be brought in as a result of regulatory change have the potential to impact Fund resource considerably and its ability to delivery services to target. Consideration is underway as to the potential resource implications and need.

4.0 Legal implications

4.1 Changes to legislation and statutory guidance are detailed in the report. Failure by the Fund to comply with legislation and/or statutory guidance can result in enforcement action and fines from both the Pension Regulator and the Courts via judicial review.

5.0 Equalities implications

5.1 The report has no direct equalities implications.

6.0 Environmental implications

6.1 The report has no direct environmental implications.

7.0 Human resources implications

7.1 The report has no direct human resources implications.

8.0 Corporate landlord implications

8.1 The report has no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 LGPS Scheme Advisory Board - Board Updates (lgpsboard.org)

9.2 Hymans Good Governance - Final Report

10.0 Schedule of appendices

10.1 None.

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Agenda Item No: 9

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report Title	Funding Strategy Statement Review 2021	
Originating service	Pension Services	
Accountable employee	Simon Taylor Tel Email	Assistant Director (Pensions) 01902 554276 Simon.taylor2@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.brothwood@wolverhampton.gov.uk

Recommendations for decision:

The Pensions Committee is recommended to:

1. Approve the proposed changes to the Funding Strategy Statement incorporating revised Termination Policy and Policy on Contribution Reviews Inter-Valuation as new addendums following enabling change to the LGPS regulations.

2. Approve delegation to the Director of Pensions to finalise the 2021 Funding Strategy Statement in consultation with the Chair and/or Vice Chair of Pensions Committee, following completion of the consultation to include participating employers.

1.0 Purpose

1.1 To provide Committee with an overview of the proposed changes to the Funding Strategy Statement (FSS) following the publication of amendments to LGPS Regulation which enable employer funding flexibility.

2.0 Background

2.1 As required under regulation 58(3) of the Local Government Pension Scheme 2013 Regulations, the administering authority must keep its FSS under review between triennial actuarial valuations. This ensures it remains appropriate in the event of material changes to the employer-base, the Investment Strategy Statement or overarching legislation.

2.2 As reported to Committee on 9 December 2020, as part of the Employer Covenant and Funding regulations report, new enabling legislation (‘Employer Flexibilities’) came into effect on 23 September 2020, which introduced the power for Administering Authorities to review employer contributions in between statutory actuarial valuations in the event of a significant change in the level of liabilities and/or covenant of an employer and allowing an employer to request a review for the same reasons.

2.3 The Employer Flexibilities legislation also introduced mechanisms to facilitate the spreading of exit debt payments upon cessation of an employer within the LGPS. To align to this legislation the Fund proposes to include policies on spreading employer debt payments (DSA) and deferred debt agreements (DDA) within the FSS.

2.4 To assist with drafting the policies and applying the Regulations, the LGPS Scheme Advisory Board (SAB) and the Ministry for Housing, Communities and Local Government (MHCLG) have both issued guidance on the amendments to the FSS, published on 2 March 2021. A consultation took place on the practical guide from the SAB which ran until 9 January 2021, the Fund having supported on the development of this guidance.

2.5 The revised draft FSS is attached as an appendix to this report (incorporating the updated Termination and Contribution Review policies as an addendum).

2.6 Due to the scope of the proposed changes to the FSS, the Fund is required to consult with appropriate stakeholders. More detail is provided on the consultation process below, but with the final version proposed to be effective from 1 June 2021.

2.7 The policies have been drafted based on the Amended Regulations and guidance. It is proposed that any changes required following consultation, which we do not expect to be substantive, will be made by officers in conjunction with advisers prior to publication of final FSS.

3.0 Arrangements prior to 23 September 2020

3.1 Prior to change in September 2020, the LGPS Regulations did not allow a review of employer contributions in between statutory actuarial valuations (currently every three years), unless in the exceptional circumstances where there was a material change in membership for that employer (note, this did not afford a participating Scheme employer the opportunity to request such a review, or for the review to be carried out based on a significant change in covenant)

3.2 The Fund's policy for exit debts was for all payments to be made immediately following the date of exit, unless there were evidenced exceptional circumstances to be considered at the sole discretion of the Fund. However, where the exit debt is required to be paid in full on exit, this may in certain circumstances, inhibit the ability of employers to leave the Fund in an ordered and affordable manner and put the Fund at higher risk of unrecoverable debts. This is especially the case for those employers in a distressed financial situation. As a consequence, in this situation employers might seek to remain in the Fund accruing further, often unaffordable, liabilities.

4.0 Policy for review of contributions in between statutory actuarial valuations

4.1 The Regulations enable an Administering Authority to set out its policy for the review of employer contributions and the Fund's FSS has been amended accordingly to confirm a revision is only permitted if one of the following apply:

a) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation.

b) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer to meet their obligations in the Scheme (employer covenant).

c) a Scheme employer requests a review of employer contributions if they believe point (a) or (b) applies and the required contributions, data and information are up to date, as well as there being an undertaking from the employer to meet the costs of that review.

4.2 Appendix A sets out the draft FSS for the Committee review, with the policy for a review of contributions inter-valuation set out in addendum 3.

5.0 Policy in relation to Flexibility for Exit Debt Payments and Deferred Debt

5.1 As outlined above, the default position for exit debt payments is that they are paid in full at the point of exit and this will remain under the new policy.

5.2 The new Regulations permit LGPS funds to develop policies that provide alternative options to employers when the last active member leaves the employer (subject to a covenant assessment and consideration of security):

a) **Debt Spreading Arrangement (DSA)** - Allows the Fund and the employer to enter into agreement which instead spreads the payment of the final exit debt calculated by the Fund actuary over an agreed period of time (the amounts and frequency of the payments in the payment plan will be agreed at the outset along with any early payment terms).

b) **Deferred Debt Arrangement (DDA)** - The Fund may enter into a DDA with a Scheme employer. This allows the employer to defer its obligation to make an exit payment and continue to make past service deficit (secondary rate) contributions to the Fund. Contribution requirements will continue to be reviewed as part of each actuarial valuation under this option, which is essentially an employer continuing ongoing participation, but with no contributing members.

5.3 In agreeing a DSA or a DDA the Fund may choose to consult relevant advisers and will engage with the employer on the terms and formal documentation of the arrangement. A time limit has been applied within the FSS to agree the required terms within 12 months from the date of exit, beyond which Fund policy would default to immediate payment of the exit debt, in line with standard LGPS regulations, to ensure timely agreement of any alternative arrangements.

5.4 Appendix A sets out the draft FSS for the Committee review and approval, with the policy in relation to flexibility for exit debt payments and deferred debt set out in section 2.6 of the Termination Policy in addendum 2.

6.0 Changes to Ill Health Insurance arrangements

6.1 The wording within section 6.4 of the FSS will be expanded to allow for an automatic review of any ill health retirements where an employer exits the Fund and has been part of the captive insurance arrangement. This is to ensure that the employers within the captive arrangement have the correct governance in place.

6.2 In addition, and not directly as a result of the Employer Flexibility legislation, the wording relating to ill health insurance arrangements has also been amended to allow for cases where the tier for ill health benefits has been amended following a review.

7.0 Consultation process

7.1 As outlined above, as the proposed amendments represent a material change in funding policy, it is necessary to consult with appropriate stakeholders on these changes.

7.2 The Fund intends to open consultation with all participating employers for a period of at least 6 weeks during April/May 2021.

7.3 The consultation proposal is for the revised FSS to be effective from 1 May 2021, subject to review of consultation responses.

7.4 The Fund consulted with our Employer Peer Group informally on the 10 March 2021 to obtain initial feedback prior to the intended formal consultation. Wider feedback is anticipated once Peer Group have had the opportunity to consider the proposals in more detail, however initial comments included a preference for interactive briefing sessions for employers, to explain the changes and afford them an opportunity to raise questions, and also around timing of consultation noting that Finance contacts would be the key reference points.

7.5 As part of the consultation, the Fund proposes to hold briefing sessions to further explain the changes and provide employers the opportunities to discuss and raise any queries, noting this is a new element of LGPS Regulation and WMPF policy, with scope to refine as practice evolves.

7.6 Committee is asked to provide comment and approval of the proposed changes as part of the consultation.

7.7 Following the consultation, and consideration of the feedback received, Committee is asked to approve delegation for the FSS to be finalised by the Director of Pensions in consultation with the Chair and/or Vice Chair of Pensions Committee.

8.0 Financial implications

8.1 The FSS sets out the funding basis and related policies through which the Fund manages the scheme liabilities and payment of contributions by scheme employers (including on exit from the Fund).

8.2 This report has financial implications in that is proposes changes to policies which could result in alternative contribution requirements for employers and/or arrangements to spread the payment of exit debt.

9.0 Legal implications

9.1 The proposals included within this report will require robust legal documentation, to include amendments, in particular to confirm arrangements for spreading the payment of exit debt.

10.0 Equalities implications

10.1 The report contains no direct equalities implications.

11.0 Environmental implications

11.1 The report contains no direct environmental implications.

12.0 Human resources implications

12.1 The report contains no direct human resources implications.

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: Draft Funding Strategy Statement June 2021.

Appendix A

FUNDING STRATEGY STATEMENT

JUNE 2021

West Midlands Pension Fund

CONTENTS

1 INTRODUCTION

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

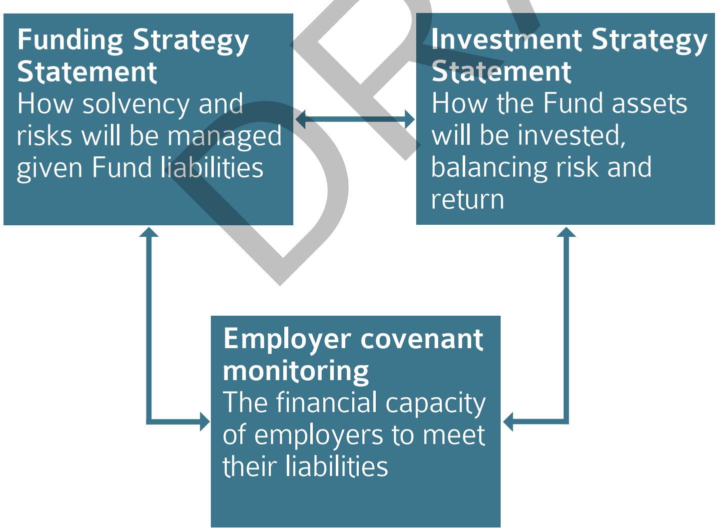
This FSS was initially developed for the West Midlands Pension Fund in conjunction with the 2019 actuarial valuation and with further revision following the introduction of 'Employer Flexibility' legislation on 23 September 2020. This latest FSS is effective from (June 2021).

This statement updates and replaces the April 2020 FSS and all previous statements and policies on funding. The statement and principles contained within reflect 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 had improved since the previous 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.

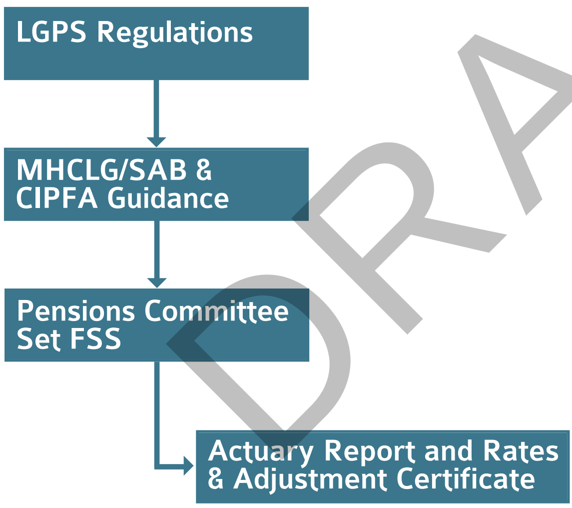
2.2 The aims of the Fund are to:

- 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:

- interim review;
- 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. More recently, as part of the consultation on changes introduced aligned to employer flexibilities within the LGPS Regulations, the Fund's Pensions Committee, Local Pensions Board and Employer Peer Group were engaged, preceding circulation of the amended FSS to all participating employers.

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;
- to include policies to manage and mitigate employer risk within the FSS in line with MHCLG guidance.
- 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. In consideration of the pace of funding, a further review may be required in between statutory actuarial valuations if an employer is exiting the fund or on a journey towards exit, or if there is a material change impacting employer liabilities and/or their ability to pay the contributions due.

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 strength. 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 an emerging and sustained 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.

5.21 **The Fund's policy for the review of contributions in between actuarial valuations is set out in addendum 3 of this document.**

Key Changes Since 2016

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

<u>2020 FSS</u>

- 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.
- Inclusion of the potential to review contributions in between statutory actuarial valuations in line with enabling "Employer Flexibilities" introduced to the LGPS Regulations (2013) with effect from 23 September 2020.

<u>2021 FSS</u>

- Mechanism to consider the establishment of individual employer arrangements to assist with the spreading of exit debt payments due to the Fund (Debt Spreading Arrangement (DSA) and Deferred Debt Arrangement (DDA)) in line with the revision to LGPS Regulations effective 23 September 2020.

6 IDENTIFICATION AND MANAGEMENT OF RISKS

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

Risk	**Management/Control**
Investment risk - Assets do not deliver the return required to meet the cost of benefits payable from the Fund; potential drivers • Inappropriate asset allocation and risk • Investment market failure • Manager underperformance	• Investment strategy considered in context of Fund liabilities and return requirement set within the funding strategy statement • Asset liability modelling and stress testing to set strategic benchmarks within Investment Strategy Statement (ISS), with annual review • Regular monitoring of strategy asset allocation and returns relative to benchmark • Regular monitoring of manager performance
Increasing maturity and benefit cashflow requirement; potential drivers • Falling contribution income and increasing total benefit payments as more members start to draw their benefits • Declining active membership due to change in local authority service delivery models • Increasing reliance on income-generating assets	• Investment strategy review develop based on future benefit cashflow projection • Modelling of investment strategy and future asset income streams • Regular monitoring of membership movements and liability profile

Increasing future benefit costs; potential drivers • Rising levels of future inflation • Increasing life expectancy beyond the level expected for Fund members	• Regular monitoring of funding level • Review of scheme membership experience vs expectations as part of each triennial actuarial valuation, with fund-specific review of mortality experience • Ongoing review and cleanse of member data records to enable accurate and up to date assessment at each triennial valuation
Employer covenant – Employers are unable to meet the cost of pension obligations and contributions to the Fund; potential drivers • Competing pressure and/or reduction in employer's own funding and available financial resources • Service outsourcing or restructuring shifting responsibility for pension obligations, some of which may be delayed in notification to the Fund • Increasing scheme costs	• Regular monitoring of employer financial capacity through employer risk management framework • Notification requirements with the Fund Pensions Administration Strategy and monitoring through the annual employer "health check" • Employer covenant assessment and categorisation to inform funding strategy and the actuarial valuation • Review of guarantee arrangements and exit at each triennial valuation • Up to date admission and termination policies, linked to funding strategy • Review and use of liability pooling arrangements where these may support greater stability in employer contributions • Contingent security arrangements to support cash contributions to the Fund
Changing employer structure within the LGPS – impacting employer covenant and guarantor backing for groups of employers within the scheme; potential drivers • Further increase in academisation and/or change in DfE guarantee to the LGPS • Further outsourcing of services to employers with no local government backing • Uncertainty and change in ability of LGPS funds to recover funding shortfalls in the event of insolvency	• Ongoing monitoring of employer movement and change in status within the scheme • Participation in scheme-wide consultation and review on sectors within the LGPS (academy and tier 3 employers) • Monitoring of regulatory change which may impact the priority of payments to the LGPS, including regular engagement with employers
Changing scheme regulations and guidance – impacting scheme benefits, funding strategy, actuarial valuations, investment strategy; potential drivers include • Changes to scheme benefits from the LGPS cost management process • Changes to the approach for setting actuarial factors (for example on early	• 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

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 the FSS applicable for the 2019 actuarial valuation, 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 2019/20 consultation, the Fund 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 (unless in the instances where an employer exits the Fund, to include a debt spreading arrangement (DSA) or a deferred debt arrangement (DDA) and has been part of the captive, in which case an automatic review will be carried out) 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.
- In the instances where a Tier 3 ill-health retirement is revised to Tiers 1 or 2 following a subsequent review, the associated strain costs will then be covered by the captive arrangement.
- 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.

6.5 The Fund has implemented and maintains an internal control framework with regular risk monitoring. This includes advice from appointed advisors 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 tri-ennial valuation.

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

Financial Assumptions

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

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

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

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

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

- **Inflation (Consumer Prices Index - CPI)**
  The starting point used for future inflation is the expected future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20-year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20-year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

  Scheme pension increases are linked to changes in the level of the Consumer Price Index (CPI) rather than RPI. Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods, and as such a deduction is made to the RPI assumption due to the different ways that the indices are calculated which the Fund actuary has estimated to be 1.0% pa. This results in a CPI inflation assumption of 2.6% pa.

- **Salary Increases**
  The assumption for long-term real salary increases (salary increases in excess of price inflation) makes an allowance of 1.0% pa over the CPI inflation assumption described above. This is assumed to capture both the impact of general and promotional increases and will be kept under review or each valuation based on Fund-wide experience.

- **Pension Increases**
  Increases to pensions are assumed to be in line with the CPI inflation assumption described above.

Demographic Assumptions

Mortality/Life Expectancy

The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are adjusted to reflect the Fund specific experience analysis undertaken to inform current life expectancy. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% pa.

Commutation

It has been assumed that, on average, members will take 50% of the additional tax-free cash available to them, as well as their accrued lump-sum entitlement. The option which members have to commute part of their pension at retirement in return for a lump-sum is a rate of £12 cash for each £1 pa of pension given up.

Other Demographics
Following an analysis of Fund experience carried out by the Fund actuary and national LGPS carried out by GAD, the allowances for withdrawals and early retirements have been updated to the latest tables published by GAD. The proportions married/civil partnership assumption has remained the same since the previous valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next three years.

Expenses
Expenses are met out the Fund, in accordance with the regulations. For the 2019 valuation, administration expenses and investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

A summary of the headline financial and demographic assumptions adopted at 2019 and in 2016 is included below. Further details may be found in the Fund Actuary's Valuation Report published on the Fund's website.

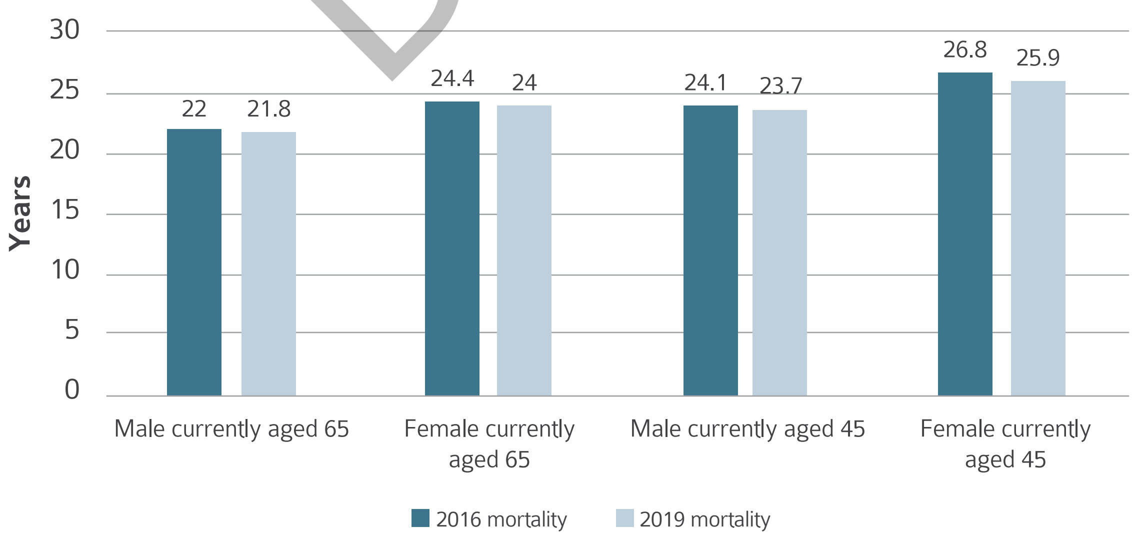
Comparison of Key Financial Assumptions – 2019 and 2016 Actuarial Valuations

Assumption	2019	2016
Discount rate (for non-orphan liabilities)	4.6% per annum	4.7% per annum
Discount rate (for orphan liabilities)	2.6% per annum	3.3% per annum
Volatility reserve	5.0%/10.0% loading on past service liability for 'Category 2' or 'Category 3' employers	5.0%/10.0% loading on past service liability for 'Category 2' or 'Category 3' employers
Inflation/pension increases (CPI)	2.6% pa	2.4% pa
Salary increases - Short term - Long term - Salary increments	 n/a 3.6% pa (CPI plus 1.0% pa) n/a	 1.0% pa for three years 3.9% pa (CPI plus 1.5% pa) Age-related allowance
Past service asset reserve (potential McCloud remedy)	1.5% of assets	n/a

<table>
<tr><th>Mortality Assumptions</th><th>2019</th><th>2016</th></tr>
<tr><td>Pre-retirement mortality - base table</td><td>GAD 2016 tables with a rating of 115% for males and 125% for females.</td><td>GAD 2013 tables with a rating of 120% for males and 135% for females.</td></tr>
<tr><td rowspan="2">Post-retirement mortality - base table</td><td colspan="2">CMI self-administered pension schemes (SAPS) tables with scheme-specific adjustments as appropriate following analysis by Barnett Waddingham’s longevity table.</td></tr>
<tr><td><table>
<tr><th>Type</th><th>Base table</th><th>Adjustments (M/F)</th></tr>
<tr><td>Normal health</td><td>S3PA Heavy</td><td>85%/95%</td></tr>
<tr><td>Ill health</td><td>S3PA Heavy</td><td>85%/95%</td></tr>
<tr><td>Dependants</td><td>S3DMA/ S3DFA</td><td>110%/125%</td></tr>
</table></td><td><table>
<tr><th>Type</th><th>Base table</th><th>Adjustments (M/F)</th></tr>
<tr><td>Normal health</td><td>S2PA</td><td>110%/105%</td></tr>
<tr><td>Ill health</td><td>S2PA</td><td>110%/105%</td></tr>
<tr><td>Dependants</td><td>S2PMA/ S2DFA</td><td>140%/110%</td></tr>
</table></td></tr>
<tr><td>Allowances for improvements in life expectancy</td><td>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.</td><td>2015 CMI model with a long-term rate of improvement of 1.5% p.a.</td></tr>
</table>

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 material and sustained surplus, this should be spread over a period with due consideration of both prudence and the desirability of maintaining as nearly constant employer contribution rates as possible.

Organisations with sufficient covenant strength and suitable government guarantee may, as part of the 2019 actuarial valuation have surplus released over 30 years.

v) Organisations without sufficient covenant strength i.e. category 3 employers or without a local or central government guarantee will not see a reduction in contributions unless a surplus exists on a minimum risk (cessation) basis.

Employer Categorisation

The Fund employer covenant monitoring framework (established and maintained since 2010), takes into account a number of financial, funding and structural factors needed to rate employer covenant and allocate each individual employer to a risk banding (RAG rated). More information can be found in the Fund's 'Employer Risk Management Framework' located on the Fund website.

For the purpose of the triennial actuarial valuation, the Fund covenant risk ratings are used, together with employer characteristics (type of body, membership profile, level of government backing or other security) to allocate employers within the Fund into three categories to assist in determining an appropriate funding strategy.

Employers in different categories will have differential contribution plans determined by their funding target and pace of recovery of any deficit. Typically, those employers with weaker covenant would have a faster pace of recovery to mitigate overall funding risk and the impact of default on other employers.

Outlined below are the categories and what these mean in terms of deficit recovery period and funding strategy, in general:

Allocated Category[1]	Fund Covenant Risk Rating	General Features
Category 1	Green	Government-backed/guarantee for Government-backed organisation and over 100% funded
Category 2	Green/Amber	Guarantee/Strong balance sheet relative to pension liability
Category 3	Red/Critical (Black)	Exiting/Weak balance sheet relative to pension liability

- **Category 1**
  - Maximum recovery period of 17 years
- **Category 2**
  - Maximum recovery period of 12 years
  - Volatility reserve of 5% loading on past service liabilities
- **Category 3**
  - Maximum recovery period of 7 years
  - Volatility reserve of 10% loading on past service liabilities

[1]Note that within the preliminary results issued to employers the category's were labelled 'low', 'medium' and 'high', these correspond to category 1, 2 and 3 respectively in the table above.

Transferee Admission Bodies
For transferee admission bodies where admission to the LGPS is via a contract or other arrangement, the maximum recovery period will be aligned to the contract length, capped at the maximum recovery period for category of employer or the maximum recovery period of 17 years (whichever is lower), or as otherwise agreed with the ceding local authority.

For transferee admission bodies where closed to new entrants, the maximum recovery period will be aligned to the future working lifetime of its membership, if less than the contract length, capped at the maximum recovery period for category of employer or the maximum recovery period of 17 years (whichever is lower), or as otherwise agreed with the ceding local authority.

Community Admission Bodies
For community admission bodies, where closed to new entrants (or deemed to be so based on membership activity over previous six years), the maximum recovery period will be aligned to the future working lifetime of its membership, capped at the maximum recovery period for category of employer or the maximum recovery period of 17 years (whichever is lower), or such other period agreed by the employer and approved by the Administering Authority.

Academies
Academies will be treated in accordance with the factors and legislation that lead to their creation. In July 2013, the Department for Education (DfE) provided a guarantee that in the event of the closure of an academy trust, any outstanding liabilities, where not met from the trust's assets on closure, would be met by the DfE in full. However, the DfE has the right to withdraw the guarantee at any time and. grounds for withdrawing the guarantee include if the contingent liability levels set by the DfE are exceeded or if projected costs are no longer affordable from within the DfE's existing budget or are not approved by Treasury. The Treasury also reserves the right to re-assess the approval of the guarantee at a later date due to spending considerations or policy developments.

Therefore, to reflect the DfE guarantee, to include the potential for it to be withdrawn or amended, all academies will be considered to have the same covenant strength and placed in the employer category 2. However, so as to distinguish the unique nature of academies in terms of the Fund's employer base and reflecting the additional level of security the guarantee provides when compared to bodies with no guarantee, the Fund will adopt a 17-year recovery for all academies. This treatment is consistent with the recovery period applied to the local authorities from which the academies convert.

Further Education Colleges

- In 2019 a college insolvency regime came into effect for further education colleges (2017 Technical and Further Education Act). This regime means:
  - normal commercial insolvency law will apply to colleges. Where a college is in severe financial distress and there is no other solution, new statutory insolvency procedures can apply;
  - the college itself or its creditors can ask the court to apply a normal commercial insolvency processes. These processes include a company voluntary arrangement, administration, creditor's voluntary winding up, court-directed winding up or receivership;
  - in the case of an insolvency, the Department for Education ('DfE') can appoint an education administrator who will have wider duties. These duties will include the avoidance and minimisation of disruption to the studies or existing students as well as to secure the best outcome for learners; and

- statutory insolvency is considered a backstop. The DfE has indicated that it will use a non-statutory route in the first instance, including the commissioning of an Independent Business Review.

The Fund continues to monitor developments in this area as colleges enter into administration under this new regime and in particular the degree of risk for the Fund and its participating employers.

APPENDIX 2: ADMISSION BODY SEPARATE FUND – WEST MIDLANDS TRAVEL LIMITED (WMTL)

a) Introduction

- As noted in section 1.8, following a process of public consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), Regulations were laid before parliament providing for the merger of the former West Midlands Integrated Transport Authority (WMITA) Fund into that of the main West Midlands Pension Fund. Those regulations came into force on 8 November 2019 and were backdated to 1 April 2020 confirming the merger.
- As a separate admission body fund, WMTL complies with all areas of this Funding Strategy Statement, save for the matters covered within this appendix.

b) Assessment of Contributions

- As part of each valuation, separate employer contribution rates are assessed by the actuary for WMTL These rates are assessed taking into account the experience and circumstances of WMTL, following a principle of no cross-subsidy with any other Fund employer.
- In line with the status of being a separate admission body fund, WMTL has its own individual investment strategy and as such investment performance is directly attributable to the assets of the employer.

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

- WMTL has its own Investment Strategy Statement (ISS).
- The Fund uses an asset liability study and stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in WMTL's ISS.
- WMTL 's investment strategy has been considered and reviewed in conjunction with the 2019 valuation and the FSS. In particular, the future return expectations of the main asset classes in which the Fund invests have been considered in determining the prudent allowance for future investment returns and extent of reliance on these by WMTL.

d) Key Assumptions

Discount rate (non buy-in pensioners)	3.2% per annum
Allowance for potential McCloud remedy (incorporated within discount rate above)	0.05% per annum
Discount rate (buy-in pensioners)	1.1% per annum
Discount rate (buy-in asset valuation)	1.1% per annum
Salary increases	2.7% per annum
Inflation/pension increases (CPI)	2.7% per annum (16-year duration)

e) Management of Funding Deficit

i) Employer contributions will be expressed and certified as two separate elements:

- the primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits.
- the secondary rate: a schedule of annual lump sum amounts, payable over the three years to 2022/23 increasing annually in line with the valuation funding assumption for long-term pay growth in respect of deficit recovery;

Both elements are subject to review from April 2023 based on the results of the 2022 actuarial valuation.

ii) A deficit recovery period was set for WMTL commensurate with the risk profile and current funding position of the employer.

f) Employer Covenant

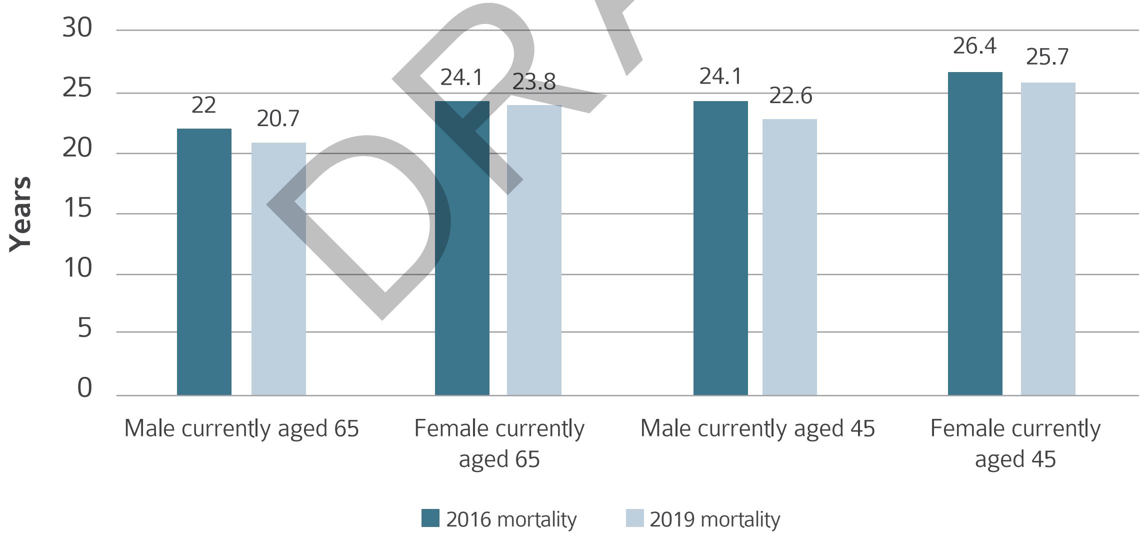
The Fund undertook a detailed assessment of WMTL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood and scale of employer default was used in the context of the funding strategy review.

Mortality Assumptions

Post-retirement mortality - base table	S3PA Heavy tables with a multiplier of 97% for all pensioner types
Allowances for improvements in life expectancy	2018 CMI model with a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.

The mortality assumptions above, and in particular the allowances for improvements in life expectancy, can be further illustrated by the chart below which is based upon a refresh of the Fund's own mortality experience together with observed changes to improvement rates over the last few years.

Life Expectancy



Other Demographic Assumptions

Partner age difference	Males are three years older than females
Proportion married	85% of members have an eligible dependant at retirement or early death
Promotional salary scale	Included implicitly within the financial salary increase assumption
Allowance for withdrawals	GAD 2016 table
Allowance for cash commutation	Members will take an additional 50% of the remaining maximum tax-free cash available after members have taken the standard 3/80ths cash sum for pre-April 2008 service
Allowance for early retirements (non-ill-health)	Each member retires at their weighted average 'tranche retirement age', plus three years for active members of WMTL and plus two years for deferred members of WMTL. The future service rate has been calculated using the retirement assumption above plus one year rather than three years for active members
Allowance for 50:50 membership	We have assumed that existing members will continue to participate in their current section

McCloud/Sargeant Ruling

At the time of drafting this FSS, it is still unclear how the McCloud/Sargeant judgements will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance included in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with any certainty; however, the Fund actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.05%.

APPENDIX 3: ADMISSION BODY SEPARATE FUND – PRESTON BUS LIMITED (PBL)

a) Introduction

- As noted in section 1.8, following a process of public consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), Regulations were laid before parliament providing for the merger of the former West Midlands Integrated Transport Authority (WMITA) Fund into that of the main West Midlands Pension Fund. Those regulations came into force on 8 November 2019 and were backdated to 1 April 2020 confirming the merger.
- As a separate admission body fund, PBL complies with all areas of this Funding Strategy Statement, save for the matters covered within this appendix.

b) Assessment of Contributions

- As part of each valuation, separate employer contribution rates are assessed by the actuary for PBL. These rates are assessed taking into account the experience and circumstances of PBL, following a principle of no cross-subsidy with any other Fund employer.
- In line with the status of being a separate admission body fund, PBL has its own individual investment strategy and as such investment performance is directly attributable to the assets of the employer.

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

- PBL has its own Investment Strategy Statement (ISS).
- The Fund uses an asset liability study and stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in PBL's ISS.
- PBL's investment strategy has been considered and reviewed in conjunction with the 2019 valuation and the FSS. In particular, the future return expectations of the main asset classes in which the Fund invests have been considered in determining the prudent allowance for future investment returns and extent of reliance on these by PBL

d) Key Assumptions

Discount rate	2.1% per annum
Inflation/pension increases (CPI)	2.7% per annum (16-year duration)

e) Employer Covenant

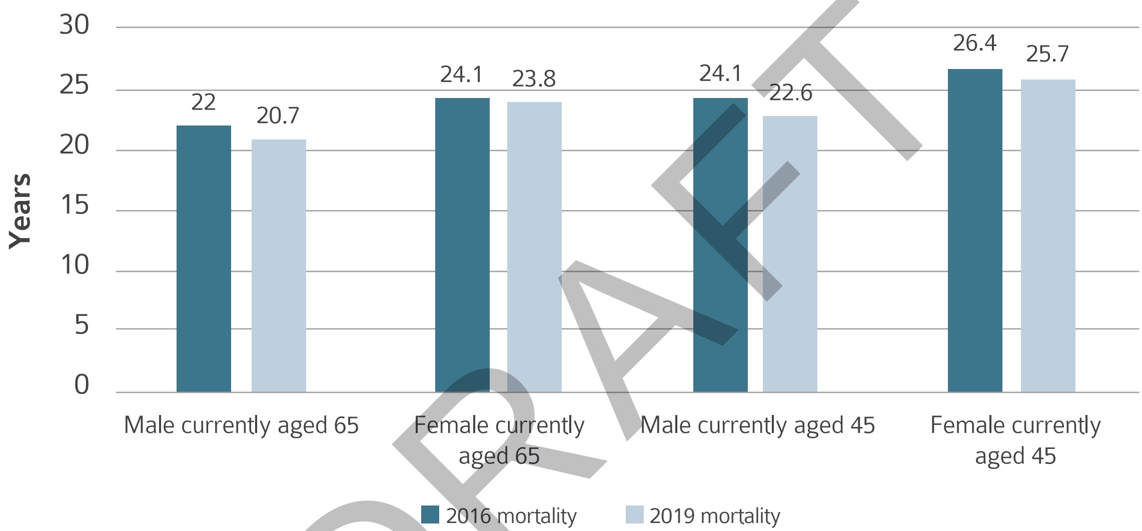
The Fund undertook a detailed assessment of PBL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood x scale of employer default was used in the context of the funding strategy review.

Mortality Assumptions

Post-retirement mortality - base table	S3PA Heavy tables with a multiplier of 97% for all pensioner types
Allowances for improvements in life expectancy	2018 CMI model with a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.

The mortality assumptions above, and in particular the allowances for improvements in life expectancy, can be further illustrated by the chart below which is based upon a refresh of the Fund's own mortality experience together with observed changes to improvement rates over the last few years.

Life Expectancy



Other Demographic Assumptions

Partner age difference	Males are three years older than females
Proportion married	85% of members have an eligible dependant at retirement or early death
Allowance for cash commutation	Members will take an additional 50% of the remaining maximum tax-free cash available after members have taken the standard 3/80ths cash sum for pre-April 2008 service
Allowance for early retirements (non-ill-health)	Each member retires at their weighted average 'tranche retirement age', i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits

McCloud/Sargeant Ruling

At the time of drafting this FSS, it is still unclear how the McCloud/Sargeant judgements will affect current and future LGPS benefits. However, given that the last active member of Preston Bus left service in 2006 (many years before the 2015 public service pension reforms), the Fund Actuary expects the impact on the Preston Bus liabilities to be negligible. Hence no allowance was made within the 2019 valuation of the Preston Bus liabilities for additional costs arising from the impact of these judgements.

GLOSSARY

50/50 Scheme
In the LGPS, active members are given the option of earning half of the standard LGPS benefits and paying half the standard member contribution rates.

Actuarial Valuation
An assessment by an actuary into the ability of a pension fund to meet its liabilities. At the actuarial valuation, the Fund's actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits.

Administering Authority
A body listed in Part 1 of Schedule 3 of the LGPS Regulations, who maintains a fund within the LGPS. Administering Authorities are typically councils based in England and Wales. The Fund's Administering Authority is the City of Wolverhampton Council.

Admission Body
An admission body is an employer admitted to the LGPS by way of an admission agreement. Admission bodies arise from contracts or outsourcing of services from local government.

Assets
Based on the assessments undertaken by the Fund actuary at each actuarial valuation, a level of contributions (primary and secondary) will be set for each participating employer within the Fund, payable in accordance with the Rates and Adjustment Certificate. Member contributions are set out in statute and collected and paid to the Fund by participating employers. The contributions received by the Fund are invested in accordance with the Fund's investment strategy and strategic asset allocation. Examples of invested assets include equities, bonds, cash and alternatives.

Asset Allocation
The breakdown of the Fund's assets in different asset classes.

Career Average Revalued Earnings ('CARE') Scheme
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Consumer Prices Index ('CPI')
CPI is an abbreviation standing for 'Consumer Prices Index'. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit
An employer has a deficit when its actuary calculates that it does not currently have enough assets to pay all future commitments. Deficits are typically corrected over periods of time by the payment of additional contributions by employers.

Discount Rate
The rate of interest used to estimate the amount of money needed to be held now to meet a benefit payment occurring in the future.

Employer Covenant
The degree which an employer participating in the LGPS is able to meet the funding requirements of the scheme, both now and in the future.

Employer's Future Service Contribution Rate ('Primary Rate')
The contribution rate payable by an employer, expressed as a% of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses and investment expenses.

Funding Level
The ratio of a fund's assets to the estimated value of its past service liabilities. This is expressed as a percentage. If a fund has a funding level of 100% then the value of its assets are equal to those of its liabilities.

Funding Strategy Statement (FSS)
This is a key governance document that outlines how the Administering Authority will determine employers' contributions to the Fund and manage its funding risks.

Funding Target
An assessment of the assets required to be held now in order to meet the benefits to be paid in the future. The desired funding target is to achieve a funding level of a 100% i.e. assets equal to the past service liabilities assessed using appropriate actuarial assumptions.

Government Actuary's Department ('GAD')
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial 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. planning for potential exit 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.D

2.6 Policy in Relation to Flexibility for Exit Debt Payments and Deferred Debt

The Fund's policy for termination payment plans is as follows:

1) The default position is for exit payments to be paid immediately in full unless under the specific circumstances outlined in section 2.4.
2) At the discretion of the administering authority, Debt Spreading Arrangements (DSA) over an agreed period or a Deferred Debt Agreement (DDA) may be agreed subject to the policy in relation to any flexibility in recovering exit payments.

Debt Spreading Arrangement (DSA) - Allows the Fund and the employer to enter into agreement which spreads the payment of the final exit debt calculated by the Fund actuary over an agreed period of time (the amounts and frequency of the payments in the payment plan will be agreed at the outset along with any early payment terms).

Deferred Debt Arrangement (DDA) - Allows the employer to defer its obligation to make an exit payment and continue to make past service deficit (secondary rate) contributions to the Fund. Contribution requirements will continue to be reviewed as part of each actuarial valuation under this option, which is essentially an employer continuing ongoing participation, but with no contributing members.

The default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt/debt spreading arrangement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of other participating employers and in accordance with the Administering Authority's fiduciary duty to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any measures to strengthen covenant are required and available to support the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged up front as a default, but may be included in the contribution plan or exit debt payment at the sole discretion of the Administering Authority. This policy and processes has been established in line with the principles set out in the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and more detailed guidance prepared by the LGPS Scheme Advisory Board

Process for Consideration of Timing of Exit Payments
The following process will determine whether an employer is eligible to spread their exit payment over a defined period. Employers with a Debt Spreading Arrangement (DSA) are deemed to be exiting the fund and such arrangements may be appropriate for an employer with no active members, no intention of returning to active employer status in the future and they wish to crystallise any debt to the fund. Employers have an obligation to make good on the payments due under the DSA, which when completed will finalise their exit.

Policy for Spreading Exit Payments
The following process will determine whether an employer is eligible to spread their exit payment over a defined period. Employers with a Debt Spreading Arrangement (DSA) are deemed to be exiting the fund and such arrangements may be appropriate for an employer with no active members, no intention of returning to active employer status in the future and they wish to crystallise any debt to the fund. Employers have an obligation to make good on the payments due under the DSA, which when completed will finalise their exit.

1) The Administering Authority will request updated covenant information from the employer including (but not exclusively) management accounts and financial forecasts. If this information is not provided then the default policy of immediate payment may be adopted.

2) Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to consider the appropriateness of allowing the employer to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3) The form of the Debt Spreading Arrangement will be determined by the Fund in discussion with the employer. The payments required will include allowance for interest to reflect later payment.

4) The initial process to determine whether an exit debt should be spread may take up to three months from the later of date of exit or receipt of required information, therefore it is important that employers who request to spread exit debt payments notify the Fund early. There is also an expectation that any agreement to spread exit debt payments and the supporting legal documentation will be completed within twelve

months of the date of exit, with a default of immediate payment falling due where arrangements are not concluded within this timeframe.

5) If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
   a) The spreading period that will be adopted (note in general it is expected that the spreading period for a DSA will be shorter than that of a DDA).
   b) The initial and annual payments due and how these will change over the period.
   c) The interest rates applicable and the costs associated with the payment plan.
   d) The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
   e) The responsibilities of the employer during the exit spreading period including the supply of relevant information and events which would trigger a review of the situation.
   f) The covenant information that will be required on a regular basis to allow the payment plan to continue.
   g) The circumstances under which the payment plan may be reviewed or terminated to potentially include immediate payment of outstanding debt (e.g. where there has been a significant change in covenant or circumstances).
6) Once the Administering Authority has reached its decision, the arrangement will be legally documented and any supporting agreements will be included.

   In the event that the Administering Authority believes that the exiting employer may be at increased risk of being able to honour remaining payments, the Administering Authority will initiate a review and may terminate the DSA to ensure arrangement remain appropriate for the Fund and do not adversely impact the other participating employers.

   The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding debt, as set out in the schedule to the DSA will be payable.

   Once the exit debt payment has been made in full, the exiting employer has no further obligation to the Fund.

Employers Participating With No Contributing Members
As opposed to triggering and paying an immediate exit debt an employer may request to participate in the Fund with no contributing members and utilise a "Deferred Debt Agreement" (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority ahead of exit. These arrangements may be appropriate for an employer which, although they have no active members, may return to active employer status at some point. Alternatively, a DDA can be used for employers who do wish to exit, but do not wish to crystallise their debts to the Fund. In this instance the employer would continue to have exposure to funding risk for the duration of the DDA.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1) The Administering Authority will request updated covenant information from the employer including (but not exclusively) management accounts and financial forecasts. If this information is not provided then a DDA may not be entered into by the Administering Authority

2) Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and participating employers to enter into such an arrangement with the employer. This decision will be informed by review of covenant, affordability and potential funding risk to the employer and other employers within the fund (based on advice from the Actuary, covenant and legal advisor where necessary).
3) The initial process to determine whether a Deferred Debt Agreement could apply may take up to three months from receipt of the required information. Any employer considering a DDA request to the Administering Authority must inform the Fund in advance of the exit (or potential exit) date.
4) Noting the steps above, if the Administering Authority deems that a Deferred Debt Agreement is appropriate it will base discussions with the employer about the potential format of the agreement upon the principles set out in the LGPS Scheme Advisory Board's guidance, issued March 2021. As part of this, the following will be considered and where relevant, recorded within the legal agreement:
    - Any security the employer can offer whilst the employer is participating within the Fund. As a general principle, the Administering Authority will not enter into such an agreement unless they are confident that the employer can support the arrangement over the duration of the agreement.
    - The categorisation that would be applied to the employer for funding purposes
    - Any upfront cash payment payable to the Fund at the outset to reduce the outstanding debt.
    - The updated secondary rate of contributions (payment plan) required up to the next valuation.
    - The financial information that will be required on a regular basis to allow the employer to remain in the Fund and online monitoring that will be undertaken by the Fund.
    - The advice of the Fund actuary, covenant, legal and any other specialists necessary.
    - The responsibilities that would apply to the employer while they remain in the Fund.
    - Conditions that may trigger the implementation of a review of the DDA and revised payment plan.
    - Potential triggers might include the removal or loss of any security or a significant change in covenant assessed as part of the regular monitoring.
    - The circumstances under which the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

    The Administering Authority make a final decision on whether it is in the best interests of the Fund and other participating employers to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.
5) For employers who enter into a Deferred Debt Arrangement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.
6) The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer as part of the arrangements and contribution requirements.

Unless otherwise agreed, a DDA will terminate on the first of the following events:

- the deferred employer enrols new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- having monitored the employer's ongoing ability to support its obligations, the Administering Authority is satisfied that the DDA may cease with no further obligation from the employer

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and advise the employer of any further payments due.

Once the exit debt payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's FSS.

ADDENDUM 3: POLICY ON CONTRIBUTION REVIEWS INTER-VALUATION

Introduction

In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1) The Administering Authority may review the contributions of an employer where there has been, or where there is likely to be, a significant change to the liabilities of an employer.
2) The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3) An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them and that employer would be required to pay the costs of any review.

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation. However, changes in assets may be taken into account when considering an employer's ability to support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority undertakes to consult with the employer prior to undertaking a r eview of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the implementation of the rates from the latest actuarial valuation, unless there are exceptional circumstances.

Circumstances Whereby Contributions May be Reviewed

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Employers may also request a review as a result of the following scenarios and subject to required contribution payments and monthly membership data being up to date, as well as ensuring there are no significant historical data gaps in accordance with the employer obligations outlined within the Pensions Administration Strategy.

1) Significant Changes in the Employer's Liabilities

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i) Restructuring of an employer (for instance, which results in a material change in the purpose, nature or scale of the organisation)
   ii) A significant outsourcing or transfer of staff to another employer in the Fund
   iii) A bulk transfer into or out of the employer
   iv) Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements, large number of withdrawals
b) Two or more employers merging including insourcing and transferring of services
c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if there is a demonstrated and evidenced expectation of a significant change in liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the contributions will consider the effect of the new active membership profile on the primary rate of contributions and the impact of the change in liabilities on the secondary contributions.

2) Significant Changes in the Employer's Covenant

This includes, but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other creditor which may impair the security provided to the Fund.

a) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this)

a) Change in potential outcome and recovery by the Fund, where an employer exhibits behavior that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet these obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, employers will be required to notify the Administering Authority of any material events. The Administering Authority will set out notifiable events requirements in the Pensions Administration Strategy.

Additional information will be sought from the employer in order to determine whether a contribution review is appropriate. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of the review, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser, as deemed appropriate.

In this instance, any review of the contribution rate would include consideration of the updated funding position both on an ongoing and termination basis (if applicable).

Timing and Charges Associated With a Contributions Review

Where an employer makes a request for a contribution review, it is considered that it should be limited to a maximum of one request per calendar year, unless circumstances dictate a further review is deemed appropriate and at the sole discretion of the Fund, having obtained relevant evidence from the employer to support the request.

In addition, unless in exceptional circumstances at the sole discretion of the Fund, a request for a contribution review will not be permitted within 12 months from the statutory valuation date, during the period when updated membership data and more in depth assessment of the Fund and individual employer liabilities is under review.

Where the review of contributions has been initiated by the Administering Authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the Administering Authority as part of the review. These exception costs would be recharged to the Scheme employer.

For the avoidance of doubt, where the contributions review is requested by an employer the expectation would be that responsibility for associated costs are passed onto the employer, unless specifically agreed otherwise and at the discretion of the Fund.

The review of contributions may take up to three months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary information (note in most cases it is expected that there will be a requirement for the employer to supply relevant information and data to support the review).

Process and Potential Outcomes of a Contribution Review

Where review is triggered, the Administering Authority will notify the employer of the intention to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to confirm payment of the costs associated with the review and outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority. The Administering Authority will determine any information it requires from the employer, in addition to the information held or provided with the request for review.

Consideration will be given to the impact of change in an employer's contributions may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

The most recent actuarial valuation data will be used as a starting point for the review, with amendments made where required to reflect any significant changes in the employer's membership profile. The Administering Authority will consider whether it is appropriate to use updated membership data within the review, for example where the level of manual amendments required to the valuation data would require a disproportionate level of work or if there has been a significant change in an employer's membership.

The approach to setting assumptions will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement. The market conditions and demographic assumptions used will be in line with those at the most recent actuarial valuation unless an update is deemed more appropriate by the Fund Actuary.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- The Employer Categorisation and in particular whether the employer's risk rating (as outlined on page 25) remains appropriate or whether they should move to a different category.
- As a consequence of the point above, whether the secondary contributions should be adjusted either as a result of the amending the recovery period and/or the volatility reserve for that employer.
- Whether the Primary contribution rate should be adjusted to allow for membership profile change.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes.

West Midlands Pension Fund
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Wolverhampton
WV1 1XP

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Agenda Item No: 10

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report title	Corporate Plan 2021 - 2026	
Originating service	Pension Services	
Accountable employee	Rachel Howe Tel Email	Head of Governance and Corporate Services 01902 55 2091 Rachel.Howe@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Pensions Committee is recommended to:

1. Approve and adopt the Corporate Plan 2021 – 2026.

1.0 Purpose

1.1 To present Committee with the proposed Fund Corporate Plan 2021 – 2026 confirming the areas of focus and drivers for change over the next five years together with the goals and ambitions for continuing to develop the Fund and deliver a high quality service to our customers.

2.0 Corporate Plan 2021 – 2026

2.1 In our Service Plan 2020 – 2025 the Fund set out a number of key goals and ambitions which would enhance service delivery to members and employers, effecting efficiency in processes and developing tools for self-service in response to customers' changing needs and demands.

2.2 Over the last 12 months, the Fund has made significant steps to deliver on its ambitions with the go-live of Employer Hub, additional self-service functions for members on our pensions portal (including deferred retire online), transformed our member offering with online webinars and E-books, ongoing investment pooling as well achieving industry standards of external accreditation. Work continues to review priorities and future requirements in response to the ever-changing environment in which we operate as well as ongoing customer feedback.

2.3 Looking forward to 2021, the Fund is conscious of the continued drivers for change with pending regulatory change, increasing service demand, rising expectations for information and risk management, together with increased oversight and reporting. In conjunction with changing customer focus and needs, heightened awareness of the protection of members from pension scams and the ongoing challenge to recruit and retain key skills all continue to be at the forefront of the Fund's evolving goals and ambitions.

2.4 As we set out our plan for 2021 – 2026 engagement and feedback from our governing bodies, employers and employee continues to shape our priorities including:

- Providing accessible information and support to our members and employers
- Continuing to scan and plan for regulatory and sector changes which may impact our employers and their interaction with the Scheme
- Ensuring the Fund continues developing activity as a responsible investor and employer
- Providing a place of opportunity to collaborate and create training and skills within the region
- Active participation in policy development and enhanced data and information management to support effective decision making
- Effectively resourcing the Fund to deliver services and enable agility in working and service delivery arrangements to continue to build an inclusive and sustainable future for the Fund and its stakeholders.

2.5 In response to these drivers and demands, the Fund has developed its Corporate Plan 2021 – 2026, evolving it from a Service Plan, noting its focus and drive on more than just service delivery with internal focus and evolution of our business to ensure we develop with our customers.

2.6 A copy of the Corporate Plan 2021 – 2026 is attached at Appendix A.

3.0 Financial implications

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

4.0 Legal implications

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

5.0 Equalities implications

5.1 The Fund's Corporate Plan has been drafted in consideration of its duties under the Equality Act. The report has no direct equalities implications.

6.0 Environmental implications

6.1 The report has no direct environmental implications.

7.0 Human resources implications

7.1 The report has no direct human resources implications.

8.0 Corporate landlord implications

8.1 The report has no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 None.

10.0 Schedule of appendices

10.1 Appendix A: Corporate Plan 2021 – 2026. (To follow).

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Agenda Item No: 11

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report title	Budget Monitoring 2020-2021 and Quarterly Accounts 31 December 2020	
Originating service	Pension Services	
Accountable employee	Darshan Singh Tel Email	Head of Finance 01902 552768 darshan.singh@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Pensions Committee is asked to note:

1. The quarterly accounts for the period ending 31 December 2020 which estimate the value of West Midlands Pension Fund at this date to be £18.7 billion, an increase of £3.4 billion (22%) since 31 March 2020.

2. West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of December 2020 is an overspend of £2m primarily attributable to increased estimates for investment management costs on implementation of planned changes to the investment strategy.

1.0 Purpose

1.1 The purpose of this report is to update Pensions Committee on the forecast out-turn against operating budget for 2020/2021 and present the quarterly accounts to 31 December 2020.

1.2 The operating budget was approved by the Committee in March 2020.

2.0 Forecast Out-turn against Operating Budget 2020/2021

2.1 The following table sets out the forecast out-turn compared with the Fund's operating budget as at the end of the third quarter:

	Budget 2019/20	Budget 2020/21	Forecast 2020/21	Variance Outturn
	£000	**£000**	**£000**	**£000**
Employees	7,358	9,066	8,082	(983)
Premises	302	300	305	5
Transport	37	38	21	(17)
Other Supplies and Services	430	437	383	(54)
Service Development	949	1,027	796	(231)
Professional Fees	1,484	1,552	1,604	52
Communications and Computing	585	613	540	(74)
Support Services	634	723	740	17
Miscellaneous Income	(584)	(595)	(565)	30
Net Expenditure	**11,195**	**13,161**	**11,906**	**(1,255)**
External Investment Management Costs	73,836	77,970	80,962	2,992
LGPS Central Charges	4,669	4,949	5,225	276
Total External Investment Costs	**78,505**	**82,919**	**86,187**	**3,268**
Total	**89,700**	**96,080**	**98,093**	**2,013**

*There may be slight differences due to rounding.

2.2 Forecasts have been made using a combination of reviewing spend to date and taking into account plans for the remainder of the financial year. The figures now combine both WMPF Main Fund and the former WMITA Pension Fund following regulations to merge the funds during 2019/20.

Budget monitoring reports for the previous two quarters already anticipated an underspend on staffing due to challenges posed to recruitment by the Covid-19 pandemic. Recruitment activity increased in quarter three and continues to do so in 2021 however, a number of roles envisaged at the outset of the 2020/21 budgeting process, together with posts which have become available due to natural turnover, will not be filled until after the end of the current budget year. These delays in recruiting to vacant posts in turn reduce associated computing and ICT support costs from the numbers originally budgeted for in March 2020.

As reported to the Committee previously, due to the impact of the pandemic and associated lockdown restrictions, the Fund forecasts underspends on transport, training and conference activities compared to the levels budgeted for approval in March 2020, prior to the emergence of the impact of Covid-19. For the same reasons, some service development initiatives will not complete in 2020/2021 and their costs will defer fully or partly into the next financial year.

2.3 As at the end of December 2020, annual external investment management costs are forecast to be approximately £3.2m above the level projected and budgeted in March 2020. There is a reduction in the forecast since last quarter due to the review and timing of implementation changes to the strategic asset allocation following approval of the updated Investment Strategy Statement in March 2020. The increase in LGPS Central charges reflects revised forecast of recharges to Partner Funds following review and recalibration of the cost sharing and investment products utilised during the year.

It should be noted that investment management costs are heavily influenced by market movements and investment performance during the year and the forecast remains an estimate.

2.4 The majority of investment management costs and fees are deducted at source by fund managers. Total projected investment management costs for the Fund for 2020/2021 are estimated to be in the region of £87m, as follows:

	Budget 2019/20 £'000	**Budget 2020/21 £'000**	**Forecast 2020/21 £'000**
External Costs:			
- Invoiced	9,960	9,678	13,124
- Deducted at Source	63,876	68,292	67,838
- LGPS Central	4,669	4,949	5,225
Total External Investment Management Costs	**78,505**	**82,919**	**86,187**
Internal Investment Management Costs	1,188	1,261	803
Total Investment Management Costs	**79,693**	**84,180**	**86,990**

2.5 Investment costs and the management thereof remain a key consideration throughout the Fund’s investment decision making and the Fund continues to review implementation routes and relative value, in the context of target risk and return. As the new investment strategy is implemented and transitions (including those to the LGPS Central pool) complete, the Fund is likely to see some increase in costs as changes are made to align the portfolio with strategic investment goals.

2.6 Cost-per-member and relative to assets under management are used as measures of pension schemes' cost-effectiveness but on comparison would not reflect differences in the level of service provided to employers or scheme members or within the investment strategies adopted. The following table sets out the forecast cost-per-member compared to budget using the three standard headings specified by CIPFA: administration, oversight and governance and investment management costs.

At this time, we are forecasting a slight reduction on expenditure relative to budget for both total administration, oversight and governance cost from £34.91 to £33.25 per member and investment management costs relative to assets under management from 0.50% to 0.47%. The latter is largely driven by increasing asset values over the year to date.

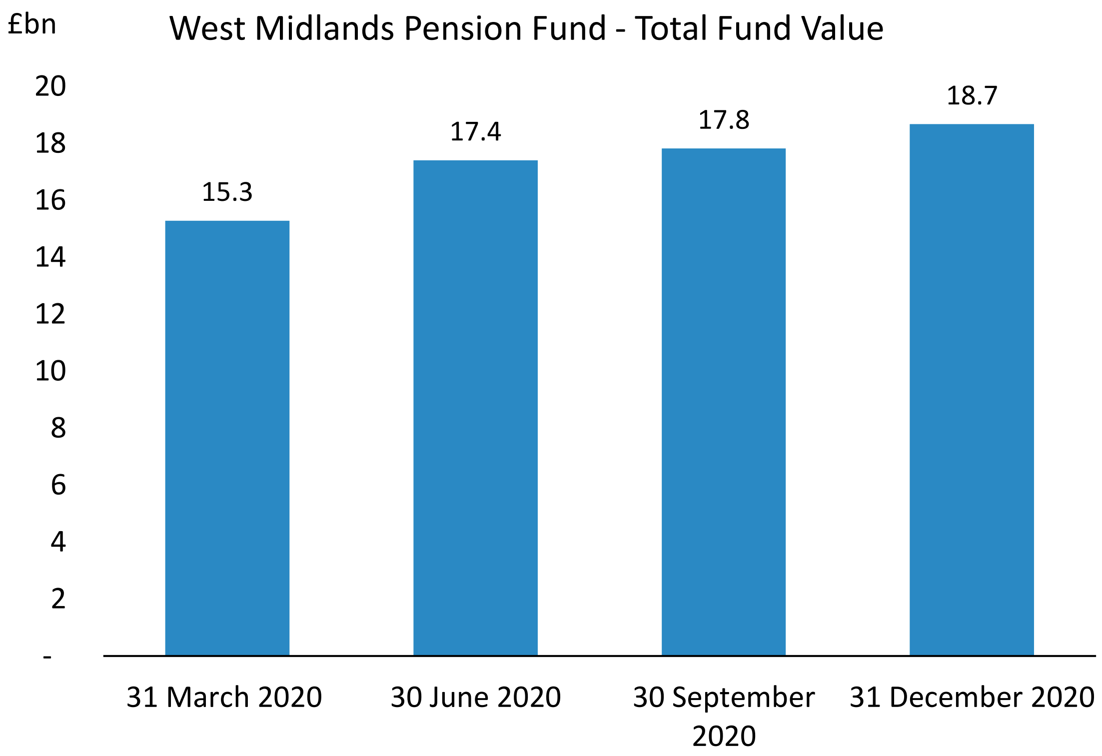
	2019/20 Actual	2020/21 Budget	2020/21 Forecast
Total Administration Costs (£000)	6,067	7,710	7,496
Administration Cost per Member (£)	18.17	22.62	22.45
Total Oversight and Governance Costs (£000)	2,869	4,190	3,607
Oversight and Governance Cost per Member (£)	8.59	12.29	10.80
Number of Members	333,934	340,903	333,895
Total Administration, Oversight and Governance cost per Member (£)	**26.76**	**34.91**	**33.25**
Total Investment Management Costs (£000)	82,537	84,180	86,990
Investment Management Cost per Member (£)	247.17	246.93	260.53
Investment Management Costs as a Percentage of Forecast Net Assets	**0.54%**	**0.50%**	**0.47%**

2.7 The Fund, like all public-sector bodies, continues to be cost-conscious and keeps its operating costs and procedures under regular review.

3.0 Quarterly Accounts – West Midlands Pension Fund

3.1 Appendix A provides a Fund Account for the nine months ended December 2020 and a Net Assets Statement as at 31 December 2020.

3.2 The Net Assets Statement estimates a value for the Fund at 31 December of £18.7 billion. This is an increase of £3.4 billion (22%) from the 31 March 2020 value shown in the year end accounts.



There are two main reasons for this increase.

- Investment markets experienced sharp falls in the last few weeks of the prior financial year due to the impact of the Covid-19 pandemic and lockdown of economies around the world so the valuation of the Fund's investments was some £1.4bn lower than had originally been forecast for end of March 2020. Post year end, investment markets have made significant recoveries pushing valuations on listed investments back up to pre-Covid levels.

- Following the actuarial valuation as at 31 March 2019, some employers chose to pay their full 2020/2021 – 2022/2023 future service and past service deficit contributions as a lump sum before the end of April 2020 and these payments were accounted for in full in the first quarter of the year.

3.3 These quarterly accounts have been prepared using a number of key assumptions, which are set out below:

- Where employers have made 'up-front' payments for the whole year and, in some cases, for future years, these have been recognised in full in the first quarter (the effect is that the contributions income shown in the Fund Account is significantly more than one quarter of the total amount that will be due for the year);
- Management expenses have been estimated on an accruals basis, being equal to three quarters of the forecast net cost for the year;
- Investment income has been calculated based on income due for the period.

4.0 Financial implications

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

5.0 Legal implications

5.1 The report contains no direct legal implications for the authority.

6.0 Equalities implications

6.1 The report has no direct equalities implications.

7.0 Environmental implications

7.1 The report has no direct environmental implications.

8.0 Human resources implications

8.1 The report has no direct human resources implications.

9.0 Corporate landlord implications

9.1 The report has no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of appendices

11.1 Appendix A – West Midlands Pension Fund Quarterly Accounts 31 December 2020.

WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE NINE MONTHS TO 31 DECEMBER 2020

Fund Account

2019/20 £m		9 months to 31 Dec 2020 £m
	Contributions & Benefits	
353.2	Contributions Receivable	1,080.4
31.2	Transfers In	16.9
14.3	Other Income	13.5
398.7	**Total contributions and other income**	**1,110.8**
(637.8)	Benefits Payable	(478.5)
(40.0)	Payments To and On Account of Leavers	(19.3)
(0.9)	Other Payments	(0.2)
(678.7)	**Total benefits and other expenditure**	**(498.0)**
(280.0)	**Net additions/(withdrawals) from dealings with members**	**612.8**
(91.5)	**Management expenses**	**(74.6)**
491.7	**Transfer in of WMITA Fund at market value**	**-**
	Returns on Investments	
178.2	Investment Income	67.3
(745.1)	Changes in Value of Investments	2,778.8
20.7	Revaluation of bulk annuity insurance buy-in contract	-
(546.2)	**Net return on investments**	**2,846.1**
(426.0)	**Net (decrease)/increase in the Fund during the period**	**3,384.3**
15,714.1	**Net Assets of the Fund at the beginning of the year**	**15,288.1**
15,288.1	**Net Assets of the Fund at the end of the period**	**18,672.4**

WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE NINE MONTHS TO 31 DECEMBER 2020

Net Assets Statement

31 March 2020 £m		31 December 2020 £m
	Investment Assets (at Market Value)	
494.0	Bonds	523.5
28.9	UK Equities	28.5
1,408.8	Overseas Equities	2,525.0
10,869.9	Pooled Investment Vehicles	13,034.4
965.1	Property (Direct)	996.4
11.7	Derivatives - Futures	1.4
-	Derivatives - Forward Foreign Exchange	5.0
582.5	Foreign Currency Holdings	458.2
569.6	Cash Deposits	845.7
75.8	Other Investment Assets	5.5
7.0	Outstanding Dividend Entitlement and Recoverable With-Holding Tax	6.9
15,013.3	**Investment Assets**	**18,430.5**
	Investment Liabilities (at Market Value)	
-	Derivatives - Futures	-
(76.8)	Derivatives - Forward Foreign Exchange	-
(76.8)	**Investment Liabilities**	**-**
14,936.5	**Net Investment Assets**	**18,430.5**
229.4	**Bulk annuity insurance buy-in policy**	**219.1**
14.5	**Long-term Debtors**	**14.9**
132.4	**Current Assets**	**33.5**
(24.7)	**Current Liabilities**	**(25.6)**
15,288.1	**Net Assets of the Fund at the end of the period**	**18,672.4**

Agenda Item No: 12

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

24 March 2021

Report title	Budget 2021/2022 and Financial Plan to 2025/2026	
Originating service	Pension Services	
Accountable employee	Darshan Singh Tel Email	Head of Finance 01902 55 2768 darshan.singh@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 rachel.brothwood@wolverhampton.gov.uk

Recommendations for decision:

The Pensions Committee is recommended to:

1. Approve the Operating Budget for 2021/2022.

2. Approve the Medium-Term financial plan for the period to 2025/2026.

1.0 Purpose

1.1 The purpose of this report is to seek the Committee's approval of the Operating Budget for 2021/2022 and the Medium-Term financial plan for the five years up to and including 2025/2026.

2.0 Background

2.1 The operating budget for 2021/2022 has been developed to reflect the objectives and priorities set out in the Fund's Corporate Plan, developed in response to growing service demand, changing regulatory requirements impacting Scheme administration, investment and changing standards of governance together with the Fund's own ongoing service transformation. All existing budgets have been subject to thorough review for on-going relevance and adequacy and adjusted where appropriate.

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

2.3 The budget and forecast figures quoted in this report are also expressed in terms of cost per scheme member a widely used though often a blunt measure of pension schemes costs.

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

3.0 Operating Budget 2021/2022

3.1 The recommended Operating Budget for 2021/2022 is £102 million. It should be noted that this budget includes the full value of investment management costs i.e. in addition to invoiced management fees, estimates have been made for fees being deducted at source by external managers.

3.2 Table 1 sets out the proposed budget analysed by expenditure type with comparison to the 2020/21 budget.

Table 1 – Operating Budget 2021/2022

	2020/21 Budget £'000	2021/22 Budget £'000	Net growth / (saving) Budget £'000
Employees	8,975	9,607	632
Premises	300	700	400
Transport	38	40	2
Other Supplies and Services	437	488	51
Service Development	1,027	1,054	27
Professional Fees	1,552	1,499	(53)
Communications and Computing	613	627	14
Support Services	723	733	10
Miscellaneous Income	(595)	(590)	5
Contingency for 2021/22 Pay award	91	93	2
Net Expenditure	**13,161**	**14,251**	**1,090**
External Investment Management Costs	77,970	82,539	4,569
LGPS Central Charges	4,949	5,225	276
Total	**96,080**	**102,015**	**5,935**

3.3 The main drivers for the net increase in the operating budget are:

a) An increase of £0.6m on employee expenditure as the Fund seeks to increase capacity in pension services, benefit operations and data management services, to enable further development of customer facing activity and recruitment of additional resource to implement statutory changes to the Scheme and member benefits impacting all public sector pension schemes as a result of the McCloud remedy. Increases in computing and support services largely reflect increasing employee numbers.

   In line with the approach taken by the City of Wolverhampton Council for 2021/22 budgets the Fund proposes setting aside £93k (equal to a 1% pay award) as a pay award contingency. Within the Spending Review 2020, government announced that public sector pay would be frozen over 2021/22 in response to the economic impacts of the pandemic, with an exception for employees who earn below £24,000 who would receive a pay increase of at least £250. Local government pay awards are still be determined but this minimum level of provision is also allowed for in these budget estimates.

b) The budget includes allowance for an increase in premises cost from 2021/2022 reflecting plans for the Fund to transition to new offices during the year. This allowance is based on an estimate of the cost of works and rent which is currently subject to more detailed development and review. Any revisions to this estimate will be reported to the Pensions Committee in June 2021.

c) Budgets for service development and other ancillary costs reflect some deferred spending from 2020/2021 and further projects planned to develop customer facing services including the website, support for benefit processing and investment operations and to continue to develop automation and self-service facilities to increase efficiencies for members and employers.

d) Investment management costs can be difficult to forecast with a high level of dependency on the underlying value of assets under management and changes to asset allocation mix, for example, moving to more expensive asset classes for risk management and investment return purposes. The projected increase (£4.5m) in investment management fees for 2021/2022 results from growth in assets under management, together with known changes in asset allocation and management arrangements (and associated costs), with the estimate incorporating an allowance for the cost of transition to new products including those launched by the LGPS Central pool. The Committee are asked to note these figures are highly indicative at this stage.

Following approval of the LGPS Central Limited 2021/2022 budget by shareholders, the Fund projects an increase in its share of the Company's recharges to £5.2m, with an increase in investment management services projected during the year.

3.4 The Fund currently has 174 employees including those in the Fund's graduate and industrial placement programmes, a net increase of 12 since 31 March 2020. Targeted recruitment continues across service areas. An update on the developing Fund structure will be provided to the Committee in June 2021.

4.0 Medium Term Financial Plan

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

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

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

4.4 It is important to note that these operating budget forecasts assume that the Fund will continue to see growth in membership and investment management and administration costs linked to growth in invested assets and inflation respectively. In practice however, costs will also be impacted by investment strategy and scheme change with development of Fund implementation and operational practices providing opportunity for some efficiencies as scale (assets and membership) increases. LGPS Central recharges are assumed to be inflation linked with further investment pooling expected to incur additional management costs on transition in year, with cost savings for economies of scale emerging over time.

4.5 Table 4 provides forecasts for all Fund activities from 2021/2022 to 2025/2026. There are some important assumptions underlying these forecasts which are discussed at paragraph 4.6.

These forecasts are for illustration only.

Table 2 – Forecast Operating Budgets 2021-2022 to 2025-2026

	2021-2022 Budget £'000	2022-2023 Forecast £'000	2023-2024 Forecast £'000	2024-2025 Forecast £'000	2025-2026 Forecast £'000
Employees	9,607	9,703	9,800	9,898	9,997
Premises	700	650	657	663	670
Transport	40	40	41	41	42
Other Supplies and Services	488	493	498	503	508
Service Development	1,054	1,054	1,054	1,054	1,054
Professional Fees	1,499	1,514	1,529	1,544	1,559
Communications and Computing	627	633	639	645	651
Support Services	733	741	748	755	763
Miscellaneous Income	(590)	(596)	(602)	(608)	(614)
Contingency for Pay award	93				
Net Expenditure	**14,251**	**14,232**	**14,363**	**14,495**	**14,629**
External Investment Management Costs	82,539	97,039	101,769	106,720	111,899
LGPS Central Charges*	5,225	5,282	5,341	5,399	5,459
Total	**102,015**	**116,553**	**121,473**	**126,614**	**131,987**

*LGPS Central charges assumed 1.1% p.a. increase

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

	2021/22 Budget	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Number of Members*	342,684	349,538	354,781	358,329	360,120
Total Administration, Oversight and Governance Costs (£000)	12,278	12,450	12,581	12,713	12,847
Total Administration, Oversight and Governance cost per Member (£)	35.83	35.62	35.46	35.48	35.67
Total Investment Management Costs (£000)	89,737	104,103	108,892	113,901	119,140
Investment Management Cost per Member (£)	261.87	297.83	306.93	317.87	330.83
Investment Management Costs as a Percentage of Forecast Net Assets	**0.46%**	**0.51%**	**0.51%**	**0.51%**	**0.51%**

* Growth in membership is projected based on review of experience in recent years and assumption of future growth at the same rate.

Table 4 – Medium Term Forecasts (WMPF)

	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Contributions Receivable**	538	556	576	599	620
Other Income	17	17	17	17	17
Benefits Payable	(585)	(633)	(646)	(659)	(672)
Other Payments		0			
Net Cost of Pensions	**(30)**	**(60)**	**(53)**	**(43)**	**(35)**
Return on Investments *	**1,011**	**1,058**	**1,107**	**1,158**	**1,211**
Management Expenses	**(102)**	**(117)**	**(121)**	**(127)**	**(132)**
Net Increase / (Decrease) in the Fund	**879**	**881**	**933**	**988**	**1,044**
Opening Fund Balance	18,672	19,551	20,432	21,365	22,353
Closing Fund Balance	**19,551**	**20,432**	**21,365**	**22,353**	**23,397**

* Note: for 2021/22 to 2025/26, return on investments (and the associated investment costs based on assets under management) is forecast to grow by 4.6% per annum.
** Note: the contributions receivable figures for 2021/22 and 2022/23 reflect agreements with some individual employers who have already paid those contributions in advance in 2020/21.

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

Table 5 – Key Assumptions

	21/22	22/23	23/24	24/25	25/26
Pay Award	1.0%	1.0%	1.0%	1.0%	1.0%
Consumer Price Inflation (December of preceding year)	1.0%	1.0%	1.0%	1.0%	1.0%
Increase in Total Number of Members *	0.5%	2.0%	1.5%	1.0%	0.5%
Growth in Investment Assets	4.6%	4.6%	4.6%	4.6%	4.6%

* Note: this projection is based on experience of recent years.

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

a) Contributions for 2023/2024 to 2025/2026 will be influenced by the 2022 actuarial valuation and could be significantly different from the figures shown here.
b) The local government sector has experienced and will continue to experience for the foreseeable future, significant changes in the way it operates including ongoing cost pressures and service restructuring and, as such, it is not yet possible to quantify the extent to which this will translate and change the growth and level of active memberships.
c) Investment income and growth in asset values and investment costs are very difficult to forecast and could reasonably be expected to exhibit much greater year-on-year volatility than shown here.
d) The impact of the transfer of funds to the LGPS Central pool, both in terms of timing and costs is estimated based on assumptions regarding future investment management costs and investment pool operational costs.

5.0 Financial implications

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

6.0 Legal implications

6.1 The report has no direct legal implications.

7.0 Equalities implications

7.1 The report has no direct equalities implications.

8.0 Environmental implications

8.1 The report has no direct environmental implications.

9.0 Human resources implications

9.1 The report has no direct human resources implications.

10.0 Corporate landlord implications

10.1 The report has no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 Pensions Committee, Corporate Plan 2021-2026, 24 March 2021.

12.0 Schedule of appendices

12.1 None.

This report is PUBLIC
[NOT PROTECTIVELY MARKED]

Agenda Item No: 13

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report title	Accounting Policies 2020/2021	
Originating service	Pension Services	
Accountable employee	Darshan Singh Tel Email	Head of Finance 01902 55 2768 darshan.singh@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 rachel.brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Pensions Committee is recommended to:

1. Approve the West Midlands Pension Fund accounting policies for the 2020/2021 financial year.

1.0 Purpose

1.1 The purpose of this report is to seek the Committee's approval of the accounting policies to be used in preparing the Funds' accounts for the 2020/2021 financial year.

2.0 Background

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

2.2 CIPFA has issued the 2020/2021 Code and there are no changes to the Code which impact materially on the Pension Fund.

3.0 Financial implications

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

3.2 The report contains no direct financial implications.

4.0 Legal implications

4.1 The report contains no direct legal implications.

5.0 Equalities implications

5.1 The report has no direct equalities implications.

6.0 Environmental implications

6.1 The report has no direct environmental implications.

7.0 Human resources implications

7.1 The report has no direct human resources implications.

8.0 Corporate landlord implications

8.1 The report has no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 None.

10.0 Schedule of appendices

10.1 Appendix A: West Midlands Pension Fund – Statement of Accounting Policies 2020/2021.

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Appendix A

West Midlands Pension Fund - Statement of Accounting Policies 2020/21

a) Fund Account

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

b) Contribution Income

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

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

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

c) Transfers to and from Other Schemes

Transfer values represent the amounts received and paid during the year for members who had either transferred benefits in or out of the scheme as at 31 March 2021, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accrual’s basis in accordance with the terms of the transfer agreement.

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

d) Investment Income

i) Interest Income

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

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period, where known to be due, have been accrued for in the accounts.

iii) Distributions from Pooled Funds

Distributions from pooled funds are recognised at the date of issue. Investment income arising from the underlying investments of pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the relevant unit price and reported within 'Change in Market Value'.

iv) Property-Related Income

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

v) Changes in the Value of Investments

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

vi) Stock lending Income

Stock lending income is accounted for on a cash received basis.

e) Taxation

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

f) Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2021. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

g) Financial Assets

The LGPS Central Pool trading company, LGPS Central Limited, only became licensed to trade on 1 April 2018. The Pension Fund's view is that for 31 March 2021, cost is therefore an appropriate estimate of the fair value of shares held in this company.

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

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

h) Freehold and Leasehold Properties

Properties are valued annually as at the year-end by independent valuers on a fair value basis. The market values included in these accounts are contained in a valuation report by the appointed chartered surveyors, as at 31 March 2021. All investment property assets are subject to annual revaluation, one third of the commercial property portfolio is valued fully in March each year with the remaining two thirds being a 'desktop' valuation. Agricultural properties are valued by specialist agricultural valuers at the same date.

i) Foreign Currencies

Investments held in foreign currencies have been valued as set out in paragraph g) above and translated at exchange rates ruling at 31 March 2021.

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2021.

j) Derivatives

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

Purchases and sales of derivatives are recognised as follows:

Futures – on close out or expiry the variation margins are recognised as cash receipts or payments depending on whether there is a gain or loss.

Forward currency contracts settlements are reported as gross receipts and payments.

k) Movement in the net market value of investments

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

l) Cash and Cash Equivalents

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

m) Financial liabilities

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

n) Management Expenses

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

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

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

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

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

o) Actuarial Present Value of Promised Retirement Benefits

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

p) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company Limited and Utmost Life and

Pensions as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note to the accounts).

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Agenda Item No: 14

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

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

Recommendations for decision:

The Pensions Committee is recommended to:

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

2. Delegate authority to the Chair and Vice Chair of Pensions Committee to approve the final publication of the 2020/2021 Statement of Accounts following audit in September and approval of the draft by Committee in June 2021.

Recommendation for noting:

The Pensions Committee is asked to note:

1. The external audit plan for the 2020/2021 Annual Report and Accounts as prepared by Grant Thornton.

1.0 Purpose

1.1 The purpose of this report is to inform Committee of the plan for the external audit of the Fund's Annual Report and Accounts for 2020/2021.

2.0 Background

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

3.0 Audit of Accounts 2020/2021

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

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

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

3.2 Informing the Audit Risk Assessment considers areas of particular relevance to the external audit under five headings:

- General Enquiries of Management;
- Fraud Risk Assessment;
- Impact of Laws and Regulations;
- Related Party Considerations;
- Accounting Estimates Considerations.

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

3.4 The audited Statement of Accounts, including the audit opinion, will be presented for Committee's formal approval in September ahead of this year's statutory deadline for publication by 30 September.

4.0 Financial implications

4.1 External audit of the Annual Report and Accounts is a fundamental part of the system of financial controls that governs the Fund's work. It provides independent assurance to stakeholders that the financial statements provide a true and fair view of the Fund's financial position and transactions for the period in question and that those statements have been prepared in accordance with generally accepted accounting practice.

5.0 Legal implications

5.1 The report contains no direct legal implications.

6.0 Equalities implications

6.1 The report contains no direct equalities implications.

7.0 Environmental implications

7.1 The report contains no direct environmental implications.

8.0 Human resources implications

8.1 The report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 The report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of Appendices

11.1 Appendix A: External Audit Plan for West Midlands Pension Fund (To follow).

11.2 Appendix B: Informing the Audit Risk Assessment for West Midlands Pension Fund (To follow).

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Agenda Item No: 15

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report title	Internal Audit Plan 2021 - 2022	
Originating service	Pensions Services	
Accountable employee	Amanda MacDonald Tel Email	Client Lead Auditor 01902 55 0411 Amanda.macdonald@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Committee is asked to note:

1. The Internal audit plan for 2021 – 2022.

1.0 Purpose

1.1 To provide the Committee with the outline work programme for internal audit during 2021 – 2022.

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 at the Fund.

3.0 Work Plan 2021 - 2022

3.1 The plan has been developed taking into account the revised programme of audit work undertaken over 2020/2021 and review of the changing regulatory environment, together with the Fund's latest strategic risk register.

3.2 A copy of the agreed work plan for 2021 – 2022 is attached at Appendix A.

4.0 Financial implications

4.1 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.

5.0 Legal implications

5.1 The report contains no direct legal implications.

6.0 Equalities implications

6.1 The report contains no direct equalities implications.

7.0 Environmental implications

7.1 The report contains no direct environmental implications.

8.0 Human resources implications

8.1 The report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 The report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of Appendices

11.1 Appendix A - West Midlands Pension Fund Internal Audit Plan 2021 – 2022.

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Appendix A

Internal Audit Plan 2021-2022

	Index
1	Introduction
2	Assessing the effectiveness of risk management and governance
3	Assessing the effectiveness of the system of control
4	Identifying the Fund’s objectives and risks
5	Framework of assurance
6	Development of the internal audit plan
7	Considerations of the Pensions Committee, Board and senior management
8	How the internal audit plan will be delivered
9	The internal audit plan

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 2021-2022 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, in compliance with Covid19 regulations.

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: Details from latest risk register:

Risk Theme	Areas of Focus
Pandemic	Covid 19
Regulatory	Scheme benefits, governance and oversight, investment strategy and implementation
Resources	People, operational costs
Operational	Increased workloads, failure by the Fund to deliver on its service plan objectives and priorities, cyber security, reliance on 3rd party providers, information and data quality
Funding	Funding management, investment management, responsible investment, investment pooling
Reputational	Customer delivery, information management, failure to act on issues

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 professional development process, 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. Audit Services Plan 2021 - 2022

Service area	Audit Review Details	Assessment of Assurance Need / Audit Timing
Governance	**Implementation of Good Governance** To include assurance that the Fund has appropriate policies in place which adhere to the mandatory and best practice policies identified by the Pensions Regulator - good practice guidance.	Medium Q4 (subject to timing of guidance)
Governance	**People Management** Review of the Fund's workforce planning and people development including the use of data to inform management actions.	Medium Q2
Governance	**Business Continuity Plan** A review of the arrangements regarding monitoring and implementation of the business continuity plan as an aid to management.	High Q1
Governance/ Pension Services	**Covid19 Response** To ascertain the actions taken by the Fund in response to the Covid-19 pandemic. Giving assurance any system and operational changes were appropriately controlled and monitored. To include changes to customer engagement and the Fund as service provider not just as employer/office space. Also, the Governing bodies service – online meeting/training.	Medium Q1
Finance	**Contributions Monitoring** Review of development tools and actions (linked to the Pensions Administration Strategy review).	Medium Q3
Finance	**Payments** To give assurance over the financial controls and authorisation of finance processes and release of cash. To include death grants and transfers out sums (large sum payments).	High Q3

Pensions Services	**Covenants** To ensure the Fund has a robust framework to monitor and adjust covenants in accordance with the triennial valuation.	High Q3
Pensions Services	**Pensions Administration Strategy** This a key document within the Fund and sets out expectations for both the Fund and employers. This review will examine adherence to agreed areas of the PAS and achievement of key performance indicators.	High Q2
Operations	**Payroll** A full key financial system review of controls around routine payroll starters / leavers / adjustments/ monitoring and overall management.	Medium Q3
Operations	**Tracing and Investigation protocols** To review controls and procedures around tracing of pension leavers via the Cabinet Office's National Fraud Initiative and other external bodies, including adherence to data protection.	Medium Q2
Investments	**Investments review** Overall review of the management and controls regarding investments retained by the Fund.	High Q4
Fund wide review	**Follow up of previous year recommendations** Ensuring they have been implemented and embedded into Fund procedures where appropriate.	Medium Q3
LGPSC Pool	Participation in the **LGPSC Pool internal audit group** and review of key assurance documents to give assurance over pooling arrangements.	Ongoing throughout the year

Other Related Internal Audit Work	
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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Agenda Item No: 16

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report title	Quarterly Investment Report to 31 December 2020 and Investment Strategy Statement 2021	
Originating service	Pension Services	
Accountable employee	Tom Davies Tel Email	Assistant Director, Investment Strategy 01902 55 8867 Tom.davies@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 rachel.brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Pensions Committee is recommended to:

1. Approve the completion of the annual review of the WMPF's Investment Strategy Statement (ISS), with only very minor changes proposed.

Recommendations for noting:

The Pensions Committee is asked to note:

1. The global market and investment update paper prepared by the Fund's Investment Consultant, Redington.

2. Asset Allocation and Performance Reporting for the West Midlands Pension Fund (WMPF), Main Fund and Admitted Body Sub Funds.

1.0 Purpose

1.1 The investment report covers developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub Funds). Supporting responsible investment activities are covered in a separate paper.

2.0 Background

2.1 This paper aims to bring together routine investment matters relevant to the management and implementation of the Fund's investment strategy and related policies:

I. The economic and market background environment in which the Fund operates and the outlook for different asset classes.

II. WMPF's investment strategy is outlined in the Investment Strategy Statement (ISS) and set in conjunction with the Funding Strategy Statement (FSS) to target a return over the long term to deliver the asset values required to meet benefit payments due to members. The Strategic Investment Allocation Benchmark (SIAB) forms part of the ISS and includes the target asset allocation and the levels of returns investment policies will be benchmarked against.

III. This report provides separate commentary on the Main Fund and Admitted Body Sub Funds (ABSF), established for former employers of the West Midlands Integrated Transport Authority Pension Fund, West Midlands Transport Limited (WMTL) and Preston Bus (PB).

IV. This report refers to Fund positioning against 2019 ISS and SIAB policy targets. These were refreshed as part of the 2020 ISS review as approved by the Pensions Committee in March 2020. Implementation of the 2020 ISS updates is underway and will see the Fund transition to new strategic policy targets, designed to better meet the future needs of the WMPF.

V. An interim review of the ISS has been completed and only very minor changes are proposed. The investment strategy formulated as part of the 2020 update remains appropriate to deliver against long term objectives.

3.0 Executive Summary

3.1 As at 31 December 2020, the West Midlands Pension Fund's market value was £18.4 billion (incl. WMTL and PB ABSF). Investment markets generally rose in the quarter continuing the recovery from lows seen earlier in the year.

3.2 The Main Fund increased by 6.0% over the quarter trailing the return of its benchmark. The Fund's growth assets (largely equities) delivered strong positive returns in the quarter. Income and stabilising assets performed less well with Infrastructure the largest detractor. The Fund's returns are below that of its benchmark for 1, 3 and 5 years but are marginally ahead over 10 years.

3.3 The Admitted Body Sub Funds outperformed in the 3 months to 31 December but remain marginally behind over 1 year and longer time periods. For WMTL, positive relative performance for the quarter was driven by a rebound in Multi-Asset Credit and Diversified Growth Funds. For both ABSF Multi-Asset Credit contributed positively to deliver excess return over the quarter but was a drag for 1 year relative performance.

4.0 Markets and Investment Background

4.1 The Fund's Investment Consultant, Redington provides a quarterly update on the market background and market performance over the quarter. The report for the quarter to 31 December 2020, which further sets out the outlook for the Fund's key asset classes over the coming months, can be found in Appendix A.

4.2 Returns for the major asset classes for the period are shown below:

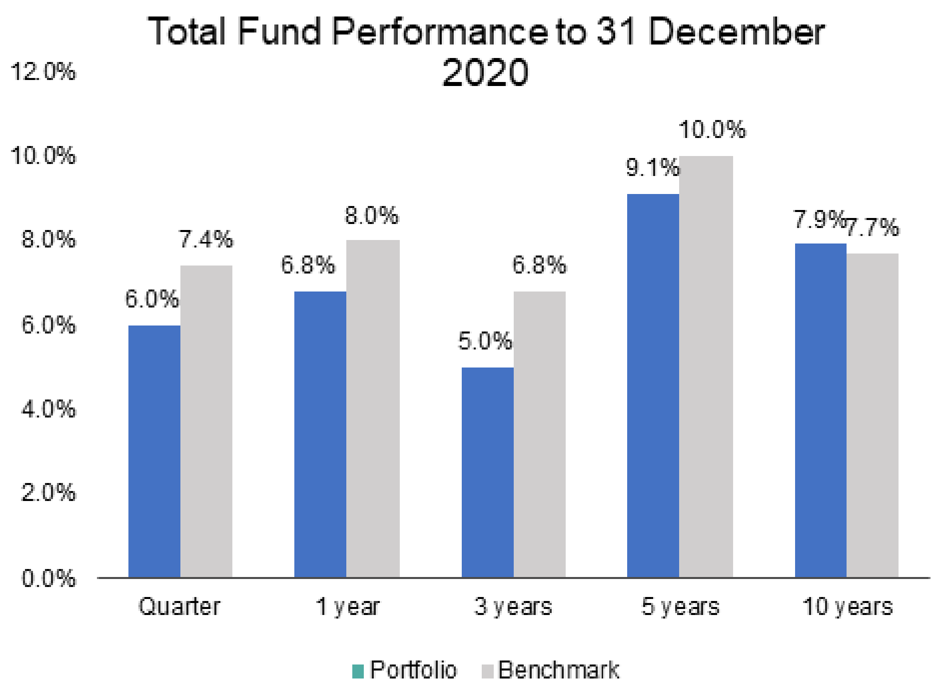
Asset Class Returns (£)	3 months (%)	12 months (%)
FTSE All World ex UK	8.4	14.3
UK Equity (FTSE All Share)	12.6	-9.8
Europe (ex UK) Equity	9.2	8.6
North America Equity (S&P 500)	6.1	14.7
Emerging Market Equity	13.2	14.7
UK Gilts (All Maturities)	0.6	8.3
Index Linked Gilts	1.2	11.0
Corporate Bonds	3.1	7.8

4.3 The last quarter of 2020 saw strong returns from all primary asset classes except for government bonds. Equity performance again varied by region with particularly strong performance seen from areas of the market which had lagged in the earlier quarters of the year. Uncertainty remains in commercial UK property markets with low transaction levels and ongoing rent deferrals.

5.0 West Midlands Pension Fund

Main Fund Performance Summary

5.1 The Main Fund delivered a return of 6.0% over the quarter against a benchmark return of 7.4%. The Fund's relative return remains negative over 1, 3 and 5 years.



5.2 Underperformance over the quarter was driven by an overweight allocation to the lower returning stabilising assets (including cash) and underperformance from the Private Equity portfolio (versus a strong performance from its listed equity benchmark).

5.3 Over 1 year, these same assets detracted from relative performance. The Infrastructure and Real Assets portfolio (benchmarked against an 'inflation plus' target return level) also underperformed over this period. Over 3 years the main detractors remain Private Equity, Infrastructure and Insurance Linked Securities.

5.4 The asset allocation of the Main Fund as at the quarter end, compared to strategic targets is set out overleaf. Note that this table and accompanying commentary refers to previous policy targets. The revised Strategic Investment Allocation Benchmark within the 2020 Investment Strategy Statement will be adopted as new strategies are implemented and meaningful allocation changes are made. New target weights are shown for reference.

5.5 The Fund remained overweight in stabilising assets versus previous policy targets, as a result of the higher than normal levels of cash held and an overweight position in corporate bonds reflecting the revised target weighting (note corporate bonds have been reclassified as an 'income' asset, as reflected overleaf).

5.6 The Fund's attention is focused on implementing the Strategic Asset Allocation (SAA) changes as agreed as part of the 2020 Investment Strategy review. Efforts are focused on fixed income assets, with steps being taken to move towards new target weights in multi-asset credit and illiquid credit in particular and cash holdings expected to be deployed over the coming quarters.

Asset class	Value (£m)	Fund allocation %	Current Benchmark %	Difference %	Change from previous quarter %
Growth					
Quoted equities	9,592	52.9	48.0	4.9	0.9
Private equity	1,217	6.7	10.0	-3.3	-1.6
Special opportunities	354	2.0	5.0	-3.0	-0.2
Total growth assets	**11,163**	**61.5**	**63.0**	**-1.5**	**-0.9**
Stabilising					
UK gilts	459	2.5	2.0	0.5	-0.3
Index linked gilts	1,233	6.8	5.0	1.8	-0.2
Cash & Cash Equivalents	932	5.1	2.0	3.1	2.7
Corporate bonds	700	3.9	2.0	1.9	-0.2
Cashflow matching fixed interest	318	1.8	3.0	-1.2	-0.1
Total stabilising assets	**3,642**	**20.1**	**14.0**	**6.1**	**1.9**
Income assets					
Specialist fixed interest	451	2.5	3.5	-1.0	-0.2
Emerging market debt	793	4.4	3.5	0.9	0.0
Property	1,318	7.3	10.0	-2.7	-1.4
Real assets and infrastructure	752	4.1	6.0	-1.9	-0.8
Total income assets	**3,314**	**18.3**	**23.0**	**-4.7**	**-2.4**
TOTAL	**18,121**	**100.0**	**100.0**	**-**	**-**

6.0 West Midlands Pension Fund

Detailed Performance Commentary

Growth Assets

6.1 The total Combined Equity Fund delivered strong absolute performance during the last three months of 2020 but underperformed the benchmark level of return. This can be attributable to holdings such as the LGPSC Climate Multi-Factor fund underperforming the broad equity market as other areas of the stock market performed very strongly (largely those which had underperformed during the rest of the year).

6.2 The Main Fund’s passive equity assets are now almost exclusively managed by the investment pool company, LGPS Central Ltd with a large proportion of these assets held in an LGPS Central Ltd ACS Global Equity passive fund. All passive funds performed broadly in line with the respective benchmarks during the quarter but with significant divergence between region and strategy as shown below.

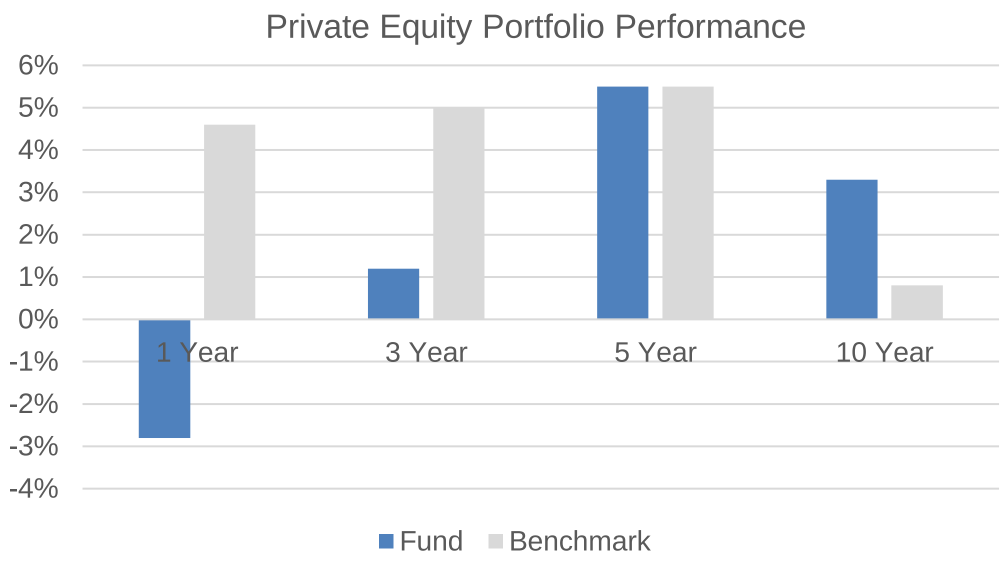
	Q4 2020	Full Year 2020
LGPSC UK (FTSE All Share)	12.6%	-9.8%
LGPSC Global ex UK	9.9%	12.6%
LGPSC Dividend Growth (Blended)	4.7%	1.4%
FTSE Climate Multi-Factor	5.3%	11.6%

6.3 Over the quarter, the Fund's actively managed global equities comprised the LGPS Central Ltd (LGPSC) Active Equity fund, an allocation to sustainable equity managers and a basket of global equity futures.

6.4 For the quarter, the LGPSC Global Active Equity Fund returned 10.9% outperforming by 2.4%. The fund also ended the full year ahead of the benchmark. The LGPSC Global Active Equity Fund is a blended multi-manager portfolio consisting of three portfolios.

6.5 Emerging Markets delivered strong returns in Q4 and the Fund's portfolio outperformed its benchmark. All three managers outperformed during the quarter but were behind over 1 year. A review of these managers is being undertaken prior to effecting the increase in allocation set within the 2020 ISS.

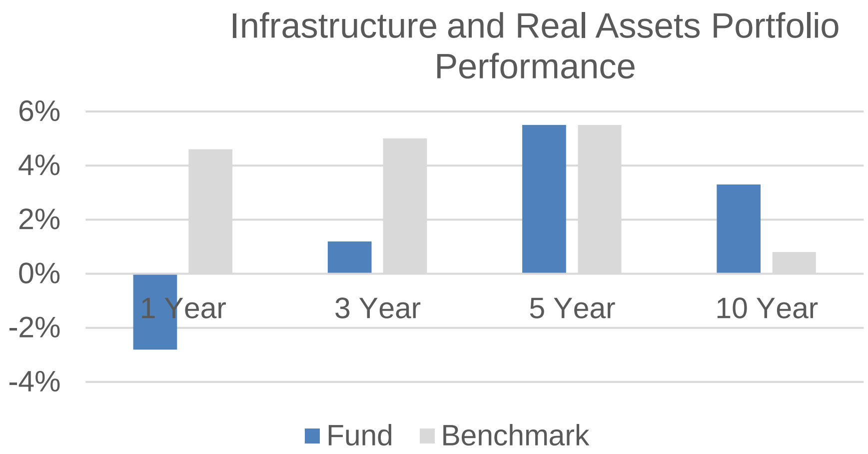
6.6 The Private Equity portfolio significantly underperformed during the 3-month period ending 31 December 2020. The benchmark used for this asset class comprises listed equities plus an outperformance target. As such, during volatile periods (such as last year) the relative performance should be interpreted with caution. Over longer time periods the portfolio has met expectations and achieved benchmark level returns.



Income Assets

6.7 The Income pool outperformed its respective benchmark over the quarter. The aggregate property portfolio had a very strong period and continues to outperform on a longer-term basis. The Direct portfolio performed particularly well (significantly ahead of IPD/MSCI indices) due to resilient performance from sectors such as industrial, supermarket and offices. As previously highlighted, valuation uncertainty persists, and future rental levels remain unclear. The Indirect portfolio declined by 1.30% over 2020 and lagged both the Direct portfolio and its return target.

6.8 The infrastructure portfolio had a positive quarter but delivered a negative return over the course of the year. The portfolio has significantly underperformed its target return (CPI +4%) over 3 years but has done better on a longer-term basis. The Fund's UK assets have struggled during the pandemic, and the US portfolio has also fared poorly.



6.9 The major elements of the fixed income portfolio performed relatively well in the final quarter of the year as credit markets continued to rally. The Emerging Market Debt (EMD) allocation performed strongly and in particular, the dedicated hard currency (referring to USD or Euro denominated debt) EMD fund. The Multi-Asset Credit allocation outperformed in Q4 benefitting from its short interest rate duration positioning but underperformed its benchmark by 1.6% for the full year 2020. The Fund's sterling credit allocations also outperformed.

<u>Fixed Income Relative Performance</u>

	Quarter	1 year	3 years
Emerging Market Debt	2.3%	4.8%	0.5%
Corporate Bonds	1.1%	3.0%	1.6%
Multi Asset Credit	0.4%	-1.6%	N/A
LGPS Central Corporate Bond Fund	0.5%	N/A	N/A

Stabilising Assets

6.10 Stabilising Fixed Income: The stabilising portfolio comprises the Fund's exposure to government bonds and index linked securities, high-grade corporate bonds and cash. The stabilising component of the fixed interest portfolio delivered marginally positive returns.

6.11 Over the 1 and 3 year timeframes the stabilising portfolio has outperformed its benchmark.

Currency

6.12 The Fund changed its hedge ratios from 50% EUR and 25% USD to 25% EUR effective 16 September 2020. The hedge has had a positive impact on performance over the course of 2020. It has however, had a larger impact on the performance of the benchmark (which reflect higher hedge ratio) so has damaged relative returns (i.e. versus benchmark).

7.0 Admitted Body Sub Funds (ABSFs)

7.1 The current allocation for the two ABSFs is shown below.

<u>WMTL asset allocation (excluding buy-in policy):</u>

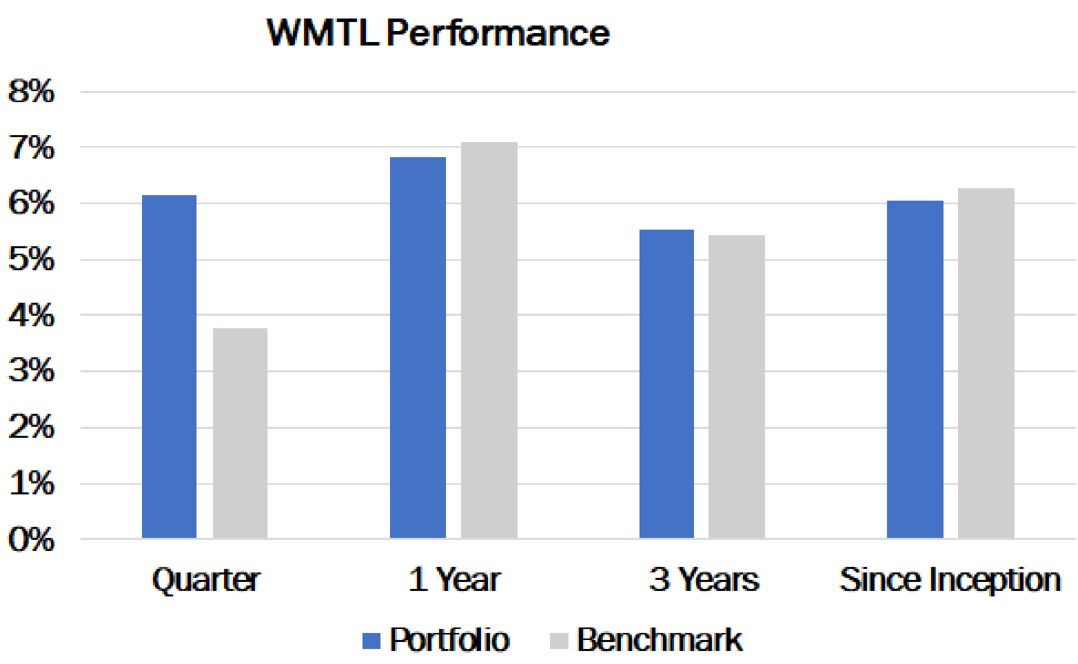
Asset Class	Value (£)	Fund allocation %
Equities	83,021,148	29.8%
Diversified Growth Funds (DGF's)	106,808,407	38.3%
Total Growth	**189,829,555**	**68.1%**
Fixed interest	38,354,588	13.8%
Multi Asset Credit	50,006,623	17.9%
LDI	0	0.0%
Cash	417,599	0.1%
Total Defensive	**88,778,810**	**31.9%**
TOTAL	**278,608,365**	

WMPB asset allocation:

Asset Class	Value (£)	Fund allocation %
Equities	3,319,294	16.7%
Total Growth	3,319,294	16.7%
Fixed interest	11,081,495	55.6%
Multi Asset Credit	5,473,397	27.5%
LDI	0	0.0%
Cash	43,396	0.2%
Total Defensive	16,598,288	83.3%
TOTAL	19,917,582	100.0%

WMTL performance

7.2 Outperformance in the quarter has not been enough to recover 1 year performance but the Fund is now marginally ahead of its benchmark for 3 years. Relative performance driven by the Multi-Asset Credit holding which underperformed its ‘base rate plus’ performance target.



7.3 WMTL 1 year performance summary by asset class is shown below with both Equities and the DGFs outperforming:

	Portfolio Return	Benchmark Return
Equities	11.0%	10.5%
Diversified Growth Funds	4.9%	4.0%
Bonds	5.4%	6.8%

Fixed Income

7.4 Alongside the Multi-Asset Credit holding in the bond portfolio, there are passive Index Linked Gilts and actively managed Corporate Bonds. The Corporate Bond mandate is performing well, ahead of benchmark over the 1-year period.

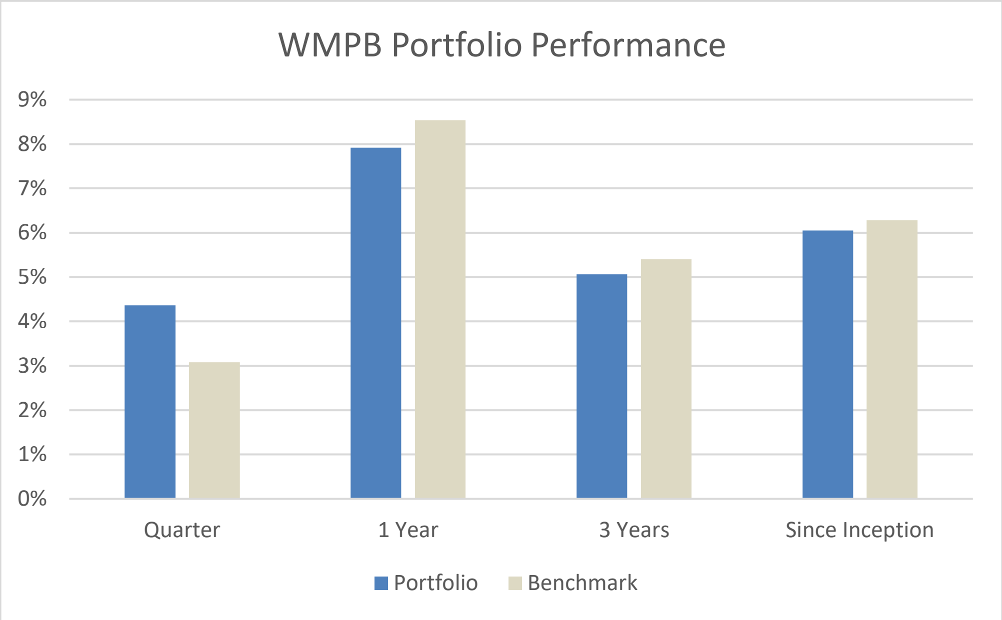
7.5 Multi-Asset Credit was introduced in Q3 2018. The fund continued its recovery in Q4 and ended the year with a positive return of 1.99% (but behind its benchmark). As mentioned, underperformance from this strategy has been a detractor for 1 year total relative returns, in part driven by benchmarking performance for this asset against target returns (LIBOR+4.5%).

Diversified Growth Funds

7.6 Both Diversified Growth Fund holdings delivered positive absolute and relative performance for the quarter and 1 year performance is now ahead of target. In both cases, equities were the largest contributor to quarterly gains. More defensive holdings held back performance for both funds.

WM PB Performance Summary

7.7 WMPB performance is summarised below. Outperformance in the quarter has not been enough to recover 1 year or 3 year performance. Relative performance for PB is almost entirely driven by the Multi-Asset Credit allocation, for the same reasons as those described above (for WMTL).



7.8 WMPB 1 year performance Summary by Asset Class is show below.

	Portfolio Return	Benchmark Return
Equities	10.5%	10.7%
Bonds	7.4%	8.0%

7.9 WMPB's holding in Passive Equities, Index-Linked Gilts, Multi-Asset Credit and Corporate Bonds are the same as those held by WMTL, with performance outlined above.

8.0 Investment Pooling Update – LGPS Central Ltd

8.1 The Fund continues to work closely with its investment pool company LGPS Central Ltd (LGPSC) and Partner Funds to look for opportunities to transition assets where it can see value add from doing so including the opportunity to make cost savings. In Q4 2020 assets were transitioned to the LGPSC Emerging Market Debt fund (at its launch).

8.2 Work has taken place alongside input from the Fund and other Partner Funds to establish a Multi-Asset Credit (MAC) sub-fund for which managers have been selected. The fund is expected early in the second quarter of this year. In addition, the Fund has been working with a number of Partner Funds and LGPSC to develop a Private Debt offering.

9.0 Investment Strategy Statement (annual review)

9.1 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 each asset type.

9.2 A full in-depth review of the Fund's ISS is completed every 3 years in conjunction with the triannual funding and valuation process. In addition, interim annual reviews are also completed to complement this cycle.

9.3 The Fund completed a full review of its investment strategy over 2019/2020 resulting in significant changes to the Funds SIAB being approved in March 2020. Implementation of these strategy changes is underway as communicated separately to this Committee.

9.4 The interim review referenced here confirms these strategy changes remain appropriate for the Fund to meets its longer-term objectives. The Fund's Investment Consultant, Redington, who advised the Fund during the 2019/2020 review have provided the following confirmation statement:

"In our view, the broad strategy changes remain appropriate from the detailed review that we conducted in 2020. We will continue to undertake analysis within each asset class category as we move through implementing the agreed changes, which will inform the specific implementation routes that are most appropriate for the Fund within each asset class".

9.5 Whilst the longer-term strategy remains the focus and is unchanged, Fund Officers are alive to the significant changes to the investment and economic landscape that occurred in 2020 and the potential impact of these on the outlook for Fund investment. These will be considered as we move through strategy implementation.

9.6 The only proposed change to an investment allocation/strategy is within the Liability Driven Investments being implemented for WMTL. Here it is proposed to reduce the stated target hedge ratio for interest rate movements to 60% (from 70%) to better reflect the hedging that is possible within the risk management controls (leverage levels) in place for this strategy.

9.7 Additionally, some minor, largely presentational changes are proposed to the ISS document. These changes are intended to improve clarity of message rather than altering the stated beliefs, Fund objectives or overarching investment strategy. These small changes include:

- improving the description of delegated responsibilities to Fund Officers.
- expanding the description of the operational risks that the Fund faces and how these are managed.
- rewording and condensing of some investment beliefs.
- changing references to specific Fund Officer job titles, where these are no longer relevant.

- formatting changes to the SIAB targets and ranges table in appendix B (the stated targets and ranges will not change).

9.8 The updated Investment Strategy Statement 2021, incorporating the revisions and clarifications above is set out in Appendix B for Committee approval.

10.0 Financial implications

10.1 The financial implications are set out throughout the report.

11.0 Legal implications

11.1 The report contains no direct legal implications.

12.0 Equalities implications

12.1 The report contains no direct equal opportunities implications.

13.0 Environmental implications

13.1 The report contains no direct environmental implications.

14.0 Human resources implications

14.1 The report contains no direct human resources implications.

15.0 Corporate landlord implications

15.1 The report contains no direct corporate landlord implications.

16.0 Schedule of background papers

16.1 Investment Strategy Statement 2020 - https://www.wmpfonline.com/CHttpHandler.ashx?id=16022&p=0

16.2 Funding Strategy Statement 2020 - https://www.wmpfonline.com/CHttpHandler.ashx?id=12481&p=0

17.0 Schedule of appendices

17.1 Appendix A – Redington Economic and Market Update Q4 2020.

17.2 Appendix B – Investment Strategy Statement 2021 (To follow).

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Appendix A

YOUR MARKET AND INVESTMENT UPDATE

Q4 2020

West Midlands Pension Fund

REDINGTON

West Midlands Pension Fund

ISO/IEC 27001 Information Security Management

QAS Institute and Faculty of Actuaries Quality Assurance Scheme

Philip Rose
(CIO, Strategy & Risk)

Market Summary

Vaccine approval and continued central bank and fiscal support outweighed a resurgence of COVID- 19 in many countries, leading to a strong quarter for risk assets.

While many economies have shrunk, government support means that incomes have not fallen as far and any bounce back in growth might be quicker than seen in previous downturns such as 2008/2009.

With markets looking ahead to a post-pandemic world, there is the possibility that integrated monetary and fiscal policy succeeds in reflating the economy and moving inflation levels and expectations to at or above central bank targets. The possibility of continued failure also remains, both in terms of mitigating the pandemic and meeting inflation targets.

Key Points for You

- Expected return was broadly unchanged over the quarter, marginally decreasing from Gilts +3.4% at 30 September to Gilts + 3.3% at 31 December. The increased expected return contribution from equities owing to the increased allocation was offset by a reduced expected return for credit assets, as a result of tightening credit spreads.
- Asset-side risk, as measured by VaR 95%, was broadly unchanged over the quarter: 15.4% at 31 December vs. 15.6% at 30 September.

Market Data

Equity Index	Level	Change since 30-Sep-20	Change since 31-Dec-19
FTSE 100 (Total Return)	6175	10.9%	-11.5%
S&P 500 (Total Return)	7759	12.1%	18.4%
EuroStoxx 50 (Total Return)	1507	11.4%	-2.6%
Nikkei 225 (Total Return)	45354	18.5%	18.3%
MSCI World (Total Return)	5983	12.4%	13.5%
MSCI Emerging Markets (Total Return)	744	16.0%	19.1%
FX			
USD vs GBP	1.37	5.8%	3.1%
EUR vs GBP	1.12	1.6%	-5.4%
GBP vs JPY	0.7	-3.5%	2.1%
Credit Spreads			
Sterling Non-Gilt Index	100	-35 bps	-11 bps
Sterling Non-Gilt 15Y+ Index	158	-30 bps	-8 bps
Global Investment Grade	103	-37 bps	3 bps
US Investment Grade	113	-43 bps	1 bps
Global High Yield	382	-136 bps	47 bps
European High Yield	326	-108 bps	58 bps

Market Data

UK Gilts	Level	Change since 30-Sep-20	Change since 31-Dec-19
10Y	0.23	-3 bps	-61 bps
30Y	0.79	-2 bps	-56 bps
UK Nominal Swaps			
10Y	0.40	0 bps	-63 bps
30Y	0.58	0 bps	-54 bps
Gilt Breakeven Inflation			
10Y	3.20	-7 bps	-2 bps
30Y	3.09	12 bps	-5 bps
UK RPI Swap			
10Y	3.41	-8 bps	-3 bps
30Y	3.11	10 bps	-6 bps
UK Gilt Real Rates			
10Y	-2.97	4 bps	-59 bps
30Y	-2.30	-15 bps	-52 bps
US TIPS			
20Y	-0.40	-8 bps	-105 bps
30Y	-0.26	-3 bps	-92 bps

VIEWS FROM THE ASSET CLASS SPECIALISTS

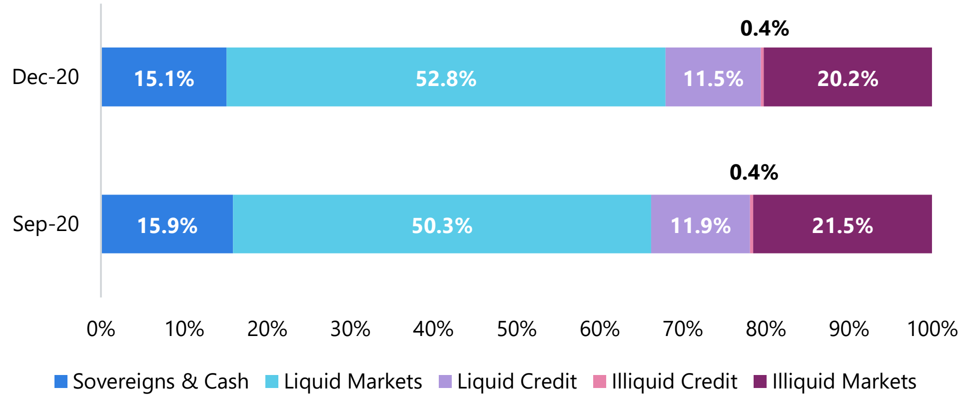
	**Kate Mijakowska** **LDI and Government Bonds**	Over Q4 2020, at the 20-year tenor point, nominal gilt yields fell by 5bps and gilt breakeven inflation increased by 4bps. During the quarter, the UK Quantitative Easing programme was extended by another £100bn (to £895bn). In November, the government announced that the UK Retail Price Index ("RPI") will be aligned with the Consumer Price Index including owner occupiers' housing costs ("CPIH") from 2030. There will be no compensation to index-linked gilt bondholders for the fact that, on average, CPIH has been 1% lower than RPI. The most significantly affected pensions schemes will be those with large CPI exposures in their liabilities that are hedged with RPI-linked instruments. We sent a more detailed note to our clients at the time. Also in November, the ICE Benchmark Administration announced a consultation on the cessation of publishing GBP, EUR, CHF, JPY, as well as some of the USD LIBOR tenors on 31 December 2021, with the other USD tenors due on 30th June 2023.
	**Oliver Wayne** **Liquid Markets: Equities**	Developed and emerging equity markets delivered strong gains in the fourth quarter of 2020. While the equity rally continued, there was a rotation in leadership across markets, sectors and factors. European and emerging market equities generated the largest returns. From a sector perspective, the more cyclical areas that underperformed most severely during the first three quarters, such as energy and financials, were the top gainers. Value factors rebounded sharply following a prolonged period of underperformance. However, valuation dispersions remain high and the gains were not enough to offset the losses experienced earlier in the year. Momentum and quality factors gave back some of the excess returns they generated during the first three quarters. We continue to believe that having a well-diversified portfolio by investment style is the key to successful long-term equity investing. From a size perspective, smaller companies strongly outperformed larger companies as investor risk appetite remained elevated in both developed and emerging markets.
	**Tom Wake-Walker** **Liquid Markets: Multi-Asset**	The continuation of combined monetary and fiscal stimulus led to positive performance for the majority of "risk-on" assets in Q4. Multi-asset portfolios with long equity exposure benefitted the most, with discretionary managers in general positioned well for strong performance resulting from the positive vaccine news and Biden victory. Commodities and inflation-seeking assets were also additive as hopes for an economic recovery in 2021 drove demand. Agricultural, energies and industrial metals all gained, while precious metals were mixed as silver rallied and gold fell. Managers' government bond performance was predominantly determined by geographical allocation as rates rose in the US while performance was mixed in Europe. Trend following strategies during the quarter were positive, benefiting from long equity and commodity positioning. Equity style premia strategies suffered in the quarter: quality, low-volatility and momentum factors struggled after the successful vaccine news and performance was not sufficiently offset by value's rebound.

VIEWS FROM THE ASSET CLASS SPECIALISTS

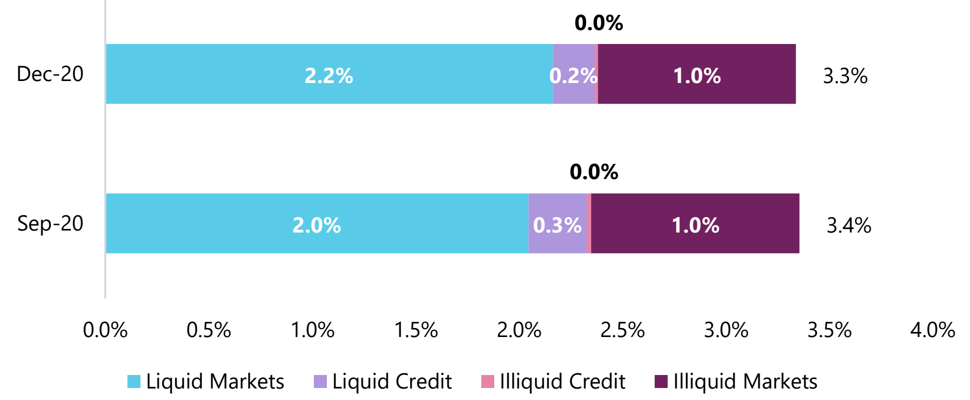
	**Chris Bikos** **Liquid & Semi-Liquid Credit**	Many adjectives will be used to describe 2020, but uneventful will not be one of them. The last quarter saw a strongly contested US presidential election result, significant rises in new infections globally, further monetary support from all major developed world central banks and a Brexit deal being struck between the EU and the UK. Government bond yields diverged, with the US 10-year yield moving 25 basis points (bps) higher, finishing at 0.88%, while broad European 10-year yields moved lower into negative territory at -0.58% and UK 10-year gilts remained broadly unchanged. Corporate bonds had a strong quarter, primarily driven by spread compression – especially in the lower-rated parts of the market. In the US, high yield was the top-performing asset class, followed by long-dated credit as spreads tightened by 155bps and 49bps, respectively. Markets behaved in a similar way in the UK and Europe. Emerging market currencies and local rates rallied very strongly, supported by US dollar weakness and higher US rates. Consequently, performance was very strong across the three main emerging market debt indices, with local markets the best performer.
	**Sarah Miller** **Illiquid Credit**	In the final three months of a difficult year, private market activity was strong, with the announcement of more than $1trillion worth of M&A deals. Although activity for the year was down 5% and 8% respectively on the two years prior, the bounce back seen in H2 2020 was at levels greater than the second half of any year ever reported. By the end of Q3 it was clear that on the whole, funds were in stronger positions than what had been priced into March valuations. As a result, over Q4 managers were able to somewhat reduce the monitoring intensity of existing positions and spend more time analysing new opportunities. Relative to Q2 pricing, we have seen spreads tighten across new opportunities. However, less tightening was observed in higher-risk, more opportunistic, private credit assets, with many investors remaining cautious. The value of distressed debt transactions for the year was more than double that of 2019, with a significant proportion of restructurings in the energy and power sector.
	**Jaspal Phull** **Illiquid Markets**	Q4 marked the end of a tough year, with the UK plunged into a second lockdown. Like every other asset class, the real estate market continues to be severely affected by the economic fallout from COVID-19. However, after months of ongoing uncertainty and untold economic damage, with Brexit finally off the table and the reality of an effective vaccine, this has sparked hopes for 2021 and optimism about a recovery. Whilst the shorter-term issues arising from the pandemic will continue to weigh on real estate, there will be a significant divergence in performance across sectors. For most types of real estate, reductions in rents and prices will mostly reflect the short-term income loss. Although investment volumes were subdued for much of 2020, encouragingly, £10.6bn was invested into UK commercial property in September, October, and November, which was a 69% rise on the preceding three-month period.

YOUR ASSET ALLOCATION AND EXPOSURE

Asset Allocation Change

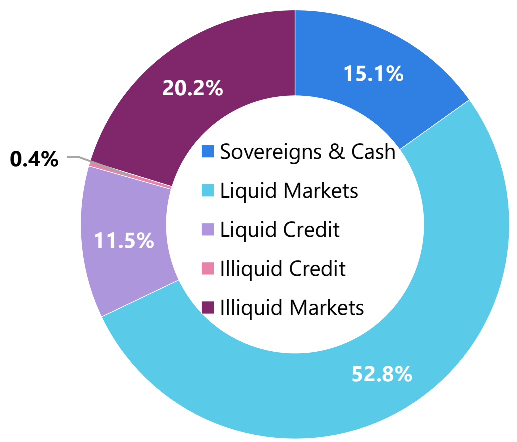


Expected Return Contribution Change (over gilts)



Note, asset class expected returns are in the appendix.

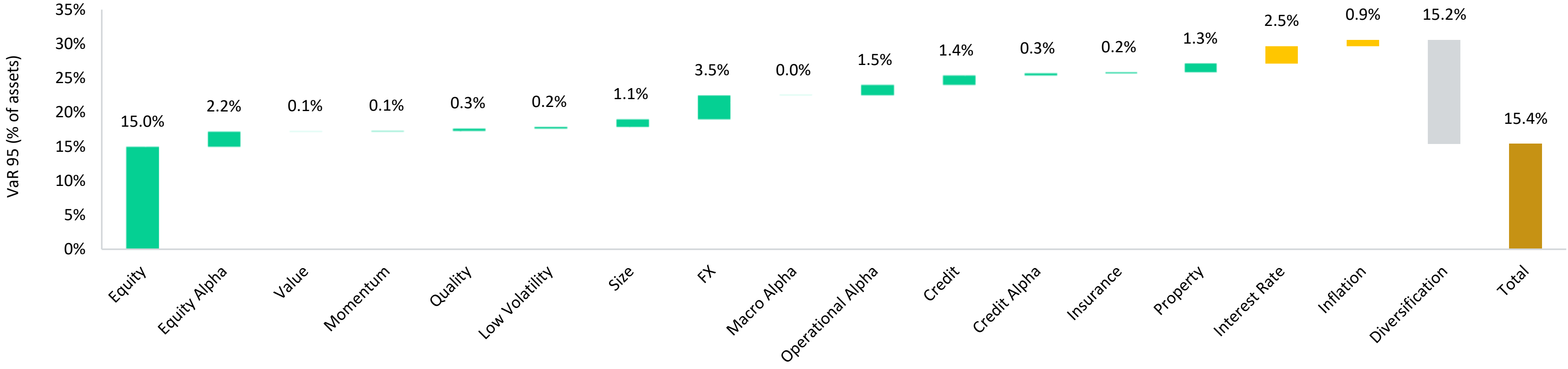
Detailed Asset Allocation



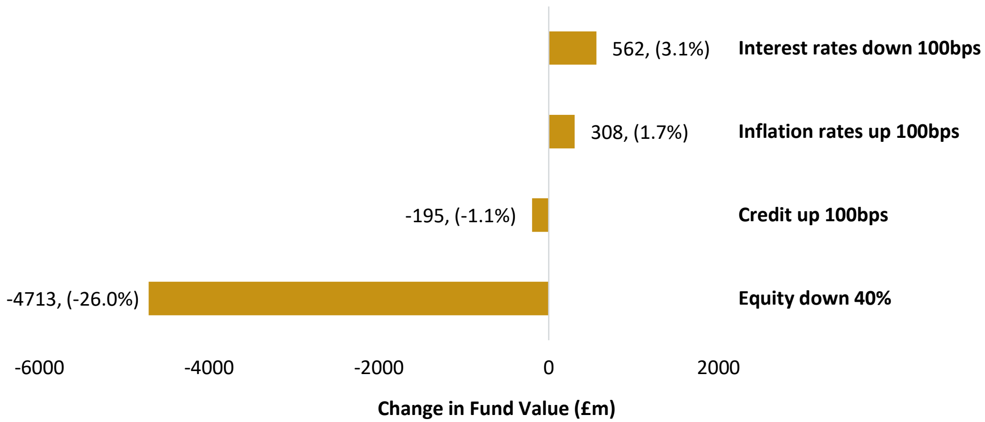
5.1% Cash
5.7% Index-Linked Gilts
1.9% Nominal Gilts
0.6% LGIM Overseas Bond Fund
1.8% US TIPS
5.7% ACS LGPS UK Equity Passive Fund
13.6% ACS LGPS Global Ex UK Passive Equity Fund
3.0% ACS LGPS Global Equity Dividend Growth Factor Fund
10.0% ACS LGPS All World Equity Climate Multi Factor Fund
5.5% LGPS Central Global Equity Multi Manager Fund
0.3% LGIM UK All Share
1.1% Global Active Futures
0.2% Futures - Global Active Cash
0.6% Equities held with Merrill Lynch
0.1% Smaller Equity Positions
2.3% Sustainable Equities - Impax
2.2% Sustainable Equities - RBC
0.6% Sustainable Equities - WHEB
2.7% Emerging Markets Equities - AGF
3.0% Emerging Markets Equities - BMO
2.0% Emerging Markets Equities - Mondrian
3.8% UK Corporate Bonds
1.2% LGPS Central Global Active IG Corporate Bond Fund
2.1% Multi-Class Credit
4.4% Emerging Market Debt Funds
0.4% Schroders FOCUS II
4.3% Infrastructure
7.3% Property
2.0% Opportunistic Funds
6.7% Private Equity

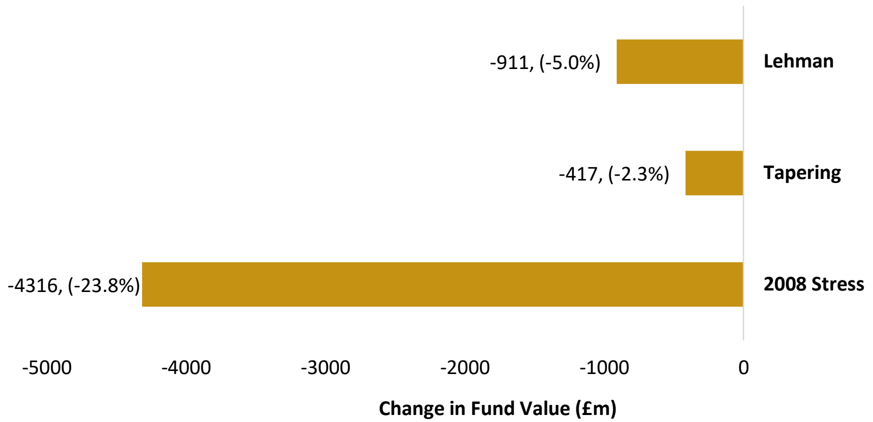
HELPING YOU UNDERSTAND YOUR RISK

Current Value-at-Risk 95% (Asset Only)



Scenario Analysis





Page 209

APPENDICES

REDINGTON'S EXPECTED RETURNS – DECEMBER 2020

Asset Class	Expected Return (Gilts +)	Volatility	Expected Fees (p.a.)
Equity			
Developed Market Equities	3.9% –	17.8% –	0.0%-0.1%
Sustainable Equities	4.2% ↑	16.2% –	0.2%-0.4%
Emerging Markets Equities	4.5% ↑	21.1% ↑	0.1%-0.2%
China A Share Equities	5.8% ↑	30.6% ↓	0.3%-0.8%
Liquid Credit			
Corporate Debt GBP – Passive	0.8% ↓	5.7% ↓	0.1%-0.2%
Corporate Debt GBP – Active	1.1% ↓	5.8% ↓	0.2%-0.3%
Emerging Market Debt – Corporates	2.0% ↓	5.9% ↓	0.4%-0.6%
Emerging Market Debt – Local Currency Sovereign	2.6% ↓	13.9% ↓	0.5%-0.8%
Emerging Market Debt – Hard Currency Sovereign	1.7% ↓	8.5% ↓	0.5%-0.8%
Multi-Class Credit Global	2.8% ↓	6.6% ↓	0.4%-0.7%
Illiquid Credit			
Diversified Matching Illiquids (Uninvested)	2.2% ↓	6.6% ↓	0.3%-0.5%
Opportunistic Illiquid Credit	4.4% ↓	9.6% ↓	1.0%-1.5% (+ performance fee)
Securitised Opportunities	3.1% ↓	5.7% ↓	0.5%-0.7%
Special Situations	5.1% ↓	15.5% ↓	1.0%-1.5% (+ performance fee)
Illiquid Markets			
Private Equity	5.6% ↑	31.6% ↓	1.0%-1.5% (+ performance fee)
Insurance-Linked Securities	4.4% –	10.0% –	1.0%-1.5%
Renewable Infrastructure (Whole Projects)	3.8% –	13.6% ↓	0.5%-0.7% (+ performance fee)

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

GLOSSARY

Term	Description
Annual Management Charge (AMC)	The fee charged by the asset manager for managing the fund, typically expressed as an annual percentage on the invested assets. This excludes additional expenses, e.g. administrative costs, which when combined with the AMC make up a fund's total expense ratio (TER).
Credit Risk	The risk of financial loss as a result of the inability or unwillingness of an entity to make payments as they become due. Many types of relationships involve credit risk, such as those in which a company owes money to its suppliers (trade debt) or where a counterparty is required to make payments under a derivative contract (counterparty credit risk).
Credit Spread	The difference in the yield between two different bonds, due to different credit quality. The credit spread reflects the additional yield an investor can earn from taking incremental credit risk. Is it often quoted in relation to the yield on government bonds.
Inflation	The average rate at which prices (of products and services) increase over time. It gradually reduces the value of money over time – the higher the rate of inflation, the greater the erosion of value.
Risk Attribution	The process of attributing certain components of total risk to various sources such as inflation risk, credit risk, equity risk, etc.
Stress Testing	A tool used to assess a portfolio's exposure to large – but plausible – shocks. In the broadest sense, stress testing is a 'what if' exercise and can be modelled across various scenarios. For example, a stress test can be used to simulate the performance of a portfolio during 9/11, Black Monday and the Global Financial Crisis of 2007-08.
Value-at-Risk (VaR)	The minimum value that the Fund would expect to lose (at risk) for a given confidence level, over a given time horizon. We have used a 1-in-20 (i.e. 95%) confidence level. For example, if a portfolio's 95% 1-year VaR is £200 million, it would have a 5% chance (1-in-20) of suffering a loss over the year of £200 million or more.
Volatility	A measure of variability that is used as a common metric for risk. It represents the value of one standard deviation change in the value of an assets' return. Under certain assumptions, we are able to use this measure to calculate the probability of a given change in the value of the asset or portfolio.
Yield	The income return on an investment. It is based on the received cash flows of a security and is usually expressed as an annual percentage.
Yield Curve	A graphical representation showing the yields of a set of financial instruments by maturity. For example, the par interest rate swap curve or the UK Gilt curve.

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Agenda Item No: 17

CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee** 24 March 2021

Report title	Responsible Investment Activities	
Originating service	Pension Services	
Accountable employee	Rachael Lem Tel Email	Responsible Investment Officer 01902 55 4767 Rachael.Lem@wolverhampton.gov.uk
Report has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for decision:

The Pensions Committee is recommended to:

1. Approve the Responsible Investment Framework March 2021 (Appendix A).

Recommendations for noting:

The Pensions Committee is asked to note:

1. The Fund's engagement and voting activity for the three months ending 31 December 2021 (Appendices B and C).
2. The issues discussed by LAPFF are set out in the Quarterly Engagement Report which is available on the LAPFF website: https://lapfforum.org/wp-content/uploads/2021/01/LAPFF_QER4_2020_final.pdf

1.0 Purpose

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

2.0 Background

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

3.0 Responsible Investment Activities

Engagement through Partnerships

3.1 The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement programme is implemented through partnerships including, the Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes ('EOS' - via a contract held by LGPS Central Ltd, the Fund's investment pool operator), the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CA 100+), and the Principles for Responsible Investment (PRI).

3.2 Through LAPFF, the Fund undertook 172 engagements with 145 companies during the quarter. Ninety-nine of the engagements targeted human rights issues, fifty nine raised climate change concerns, with the remaining engagements focussing on a mix of environmental risk, human rights, and governance issues. Most engagements were conducted through dialogue with Executive Directors or CEOs; three engagements are currently categorised as change in process, whilst substantial and moderate improvements were documented in three engagements.

Through LGPS Central and EOS, the Fund has been closely monitoring the developing engagement activity in support of responsible financial management, with focus on the banking sector and company response to social needs highlighted by the pandemic. Topical issues such as fair tax payment and coronavirus vaccine distribution have come to the fore as attention turns to global recovery. LGPS Central are in the process of preparing an annual review of engagement activity and progress which will be reported to the Committee in June.

3.3 The ongoing global COVID-19 pandemic continues to cause disruption with potentially long-lasting repercussions for the economy and society as a whole and the Fund continues to reflect and engage on the impact that this is having for companies and their stakeholders.

Climate Change

3.4 With the UN's COP26 meeting set to take place in November 2021, this is a critical year for both corporate and policy makers in accelerating action towards the goals of the Paris Agreement - to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. The focus is now on the UK and the contribution that local authority pension funds and other institutional investors can make to help decarbonise the economy in a way that protects beneficiaries and secures just transition to net zero.

3.5 Following a primary proposal in August 2020, the Department for Work and Pensions published a secondary draft of climate risk reporting and governance regulations for occupational pension funds in January 2021[1]. The consultation on the proposed rules comes after the Chancellor in November announced plans to roll out mandatory climate reporting requirements across the UK economy by 2025, with a significant proportion in place by 2023. The Fund provided responses to both phases of the consultation and will review how these changes influence LGPS regulations as and when these are published by MHCLG.

3.6 This quarter, fifty-nine climate change engagements were undertaken by LAPFF. Change in progress has been recognised through engagement with ArcelorMittal. LAPFF pushed ArcelorMittal to set group-wide net zero targets and the company has now set an interim target of 20% reduction in scope 3 emissions by 2030. LAPFF similarly met with Standard Chartered who has since committed to net-zero emissions across its global properties by 2030. For scope, in regard to 3 emissions (which relate to indirect emissions occurring in a company's value chain), the company is now working with clients to measure, monitor and reduce emissions to ensure alignment of the portfolio with the Paris goals.

3.7 During 2020, LAPFF called on the UK Government to ban sales of all new petrol and diesel cars by 2025. The Government has confirmed that it will ban the sales by 2030, representing a significant outcome in terms of carbon reduction impact. When questioned on its approach to fleet electrification, BMW assured LAPFF that is was ready to meet the rise in demand for electric vehicles and that its own operations will be carbon neutral by 2022.

3.8 Through CA100+ the Fund engaged 39 oil and gas companies during 2020. BP set a new ambition to become a net-zero emissions company by 2050 for scope 1, 2 and 3 with a 50% cut in the carbon intensity of products it sells by 2050 or sooner. It also became the first oil major to announce that it will cut production 40% by 2030. Shell set a new long-term ambition to reduce the net carbon footprint of its energy products by 65% by 2050, and by around 30% by 2035. To reach overall net-zero emissions, Shell intends to pivot towards serving customers that are aligned with its net-zero ambitions.

[1] https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-consultation-on-regulations

3.9 During 2020, the Fund also engaged 23 mining and metal and 14 consumer product companies via CA100+. BHP made a significant enhancement in its approach to improve real-time disclosure on misalignment and escalation. The company also set a medium-term target to reduce operational emissions by 30% by 2030. Unilever announced it would achieve net-zero emissions from all its products by 2039. It intends to establish a 1 billion Climate and Nature Fund to invest in projects such as reforestation, carbon sequestration and conservation.

Sustainable Food Systems

3.10 As a founding member of the 'Valuing Water Finance Task Force[2]', LAPFF attended the second meeting in November. Task Force members discussed the importance of highlighting the link between water resources and climate change as well as the need for a solution-orientated approach. Members discussed how best to encourage asset allocation to the future of water security. Ultimately, the methodologies of both the cost of inaction and the shadow price on water were identified as a potentially meaningful way of undertaking financial materiality assessments.

3.11 The UN's landmark 2019 global assessment report on biodiversity and ecosystem services identified a major decline in biodiversity at a level unprecedented in human history, with extinction rates accelerating. In 2021, countries are expected to agree on a post- 2020 framework for biodiversity at the Convention on Biological Diversity COP 15. Like the Paris Agreement for climate change, the targets will be delivered by countries and companies.

3.12 Consumption of plastic has increased 20-fold in the last 50 years and is set to triple again by 2050, yet only 14% is recycled. Simultaneously, microplastics threaten to contaminate all living organisms, with unknown health consequences. EOS have published a white paper 'Investor Expectations for Plastic Challenges[3]' to help address this escalating problem. Over the long term, EOS deem that plastics must either be removed altogether, reused, or recycled in a closed loop.

Human Rights

3.13 In 2020, along with other LGPS Funds, the Fund reported that it had been approached by both pro-Israeli and pro-Palestinian groups about investments in the Israeli-Palestinian territories. Consequently, LAPFF cross-referenced the companies of interest with a UN list of companies raising concerns based on their operations in this area to determine a preliminary list of companies with which to engage on this issue. The first engagements have taken place with three of the seventeen companies approached on this issue, calling for the companies to prepare human rights impact assessments. So far, there has been pushback on two fronts from all three companies, one citing existing legal requirements in place to protect. LAPFF will continue to engage with the companies approached and Pensions Committee will be kept updated on the progress of this engagement.

[2] https://www.ceres.org/valuing-water-finance-task-force
[3] https://www.hermes-investment.com/uki/eos-insight/eos/investor-expectations-for-global-plastics-challenges/

3.14 Part of LAPFF's strategy to make progress on the previously reported Tailings Dam safety has been to meet company chairs to explain the Forum's perspective on the importance of speaking meaningfully with affected communities. The Forum has managed to speak to the chairs of Vale and BHP but is yet to meet with the chairs of AngloAmerican and Glencore on this issue. These engagements fit within the continuing collaborative efforts between investors through another Church of England-led initiative on engagement with Indigenous communities. Over 70 letters were sent to mining companies globally to request improved disclosure on stakeholder engagement and governance. The results are now being collected to determine next steps.

3.15 The Fund continues to engage social media companies through its collaboration with the NZ Superfund. As a direct response to a specific governance-level request by the Superfund, Facebook has updated the charter of its Audit & Risk Oversight Committee to explicitly include review of content-related risks that violate its policies, and it will move not just to monitor or mitigate such abuse, but to prevent it. Facebook noted its appreciation of the Superfund's constructive dialogue. Alphabet has also recently strengthened the mandate of its Audit committee to explicitly include oversight of civil and human rights-related risks. The Superfund hopes that Twitter will follow suit.

Responsible Financial Management

3.16 Executive remuneration continues to be a topical issue and, against the backdrop of the coronavirus pandemic, decisions on how to reward executives have been thrown into sharp focus. During the quarter, EOS looked for appropriate reductions to salaries and incentive pay and for boards to use their judgement to ensure executives were not being unduly insulated from the impacts of the crisis where others were not. EOS opposed pay proposals where they did not believe appropriate adjustments had already been made, such as at JPMorgan Chase & Co, Disney and Delta Airlines.

3.17 EOS has continued to make the case for switching to simpler pay schemes based on long-term time-restricted stock, as the crisis exposed the limitations of schemes reliant on stock options or 'performance-based' schemes for which boards struggled to set meaningful targets. Underpinning this, EOS has applied its normal voting policy guidelines that seek to address excessive pay and problematic pay structures around the world.

3.18 EOS has been engaging with Tesco since 2014. Following recent correspondence with Tesco's board, EOS were pleased with the changes made to the company's culture and processes, particularly for financial reporting and audit, risk management and enhanced transparency. EOS was satisfied with the effectiveness of the company's response to the coronavirus pandemic; improved risk management processes enabled a quick operational response, whilst the company's culture enabled swift decision-making.

Further information about the full range of EOS engagement activity is summarised in their quarterly engagement report included as a background paper to this report

Voting Globally

3.19 The Fund's voting policies are currently executed by EOS via a contract held by LGPS Central Ltd, the Fund's asset pool company. The Fund has contributed to and endorses LGPS Central's Voting Principles.

3.20 An overview of the engagement and voting activity for the quarter across markets and issues can be found in Appendices B and C. During the period, the Fund voted at a total of 331 company meetings (2,523 resolutions) – 62 UK, 73 Europe, 37 North American, 40 Developed Asia, 91 Australasian and 28 in Emerging and Frontier Markets. At 149 meetings we recommended opposing one or more resolutions. The largest number of resolutions that were opposed concerned remuneration and board structure (usually voting against non-independent, non-executive directors where the Fund or its advisors do not see sufficient independent oversight on a company board).

Correspondence

3.21 The Fund continues to receive correspondence from individual members of the public, and more established divestment groups in connection with climate change and calls for divestment. In February, the Fund received advanced notice of a proposed publication by Friends of the Earth in relation to our investment in coal, oil and gas companies. The Fund raised directly with the report authors some misstatement of information which has resulted in the overstating of the exposure to these industries within our investments and sought rectification of the data prior to publication. The Fund maintains its position that engagement rather than divestment continues to be a more effective long term approach and is able to point to the collaborative work it engages on with others to deliver success in encouraging companies to set carbon targets and to focus on managing their own climate risks. The Fund continues to respond to all correspondents.

Leadership and policy development

3.22 The IIGCC Net Zero Investment Framework was launched on 10 March. This aims to provide a comprehensive set of recommended actions, metrics and methodologies to enable both asset owners and asset managers to maximise the contribution they can make to decarbonisation of the global economy in tackling climate change. It provides an important tool to support alignment with net zero and is one output from the Paris Aligned Investor Initiative (PAII) that the West Midlands Pension Fund, along with LGPS Central, has contributed to since 2019. The Fund continues to support PAII and development of framework implementation through two working groups.

3.23 At time of writing, the Fund is awaiting publication of the first company scorecards from the Climate Action 100+ Net-Zero Company Benchmark. The benchmark framework developed in collaboration with signatory investors and leading climate research and data NGOs incorporates ten disclosure indicators to assess company alignment with key commitments. This, together with the IIGCC framework will inform a review of the Fund's Climate Change Framework and Strategy over 2021/22.

3.24 As part of a developing workstream on Equality, Diversity and Inclusion (EDI) the Fund is working in collaboration with other investors to engage with its investment managers to understand developing practice and action to improve EDI within the pension and asset management community. Progress will be reported to Committee as this develops.

4.0 Responsible Investment Framework March 2021

4.1 The Fund's Responsible Investment Framework sets out the approach the Fund takes to integrate environmental, social and governance (ESG) considerations into its investment strategy and implementation. Supplementing and aligned with the investment beliefs set in the Investment Strategy Statement, the Framework outlines three pillars of Fund action on selection; active stewardship through engagement and voting; and transparency and disclosure.

4.2 The Framework was last reviewed and updated in June 2020, to incorporate four updated engagement themes over the three years to 2023. Review in 2021 has focused on routine review and refresh of the policy document as part of an annual programme, to capture any associated changes and/or developments and keep the framework document up to date.

4.3 Key changes to the updated Framework enclosed in Appendix A include:

- specific reference to the Fund's support for increasing regulation and guidance for UK pension schemes to assess, manage and publish action on Climate Change;
- reference to the action the Fund is taking to disclose its climate risk assessment;
- reference to standards adopted by LGPS Central to ensure RI-integration with the products the Company creates; and
- specific reference to the Fund's work to promote diversity and inclusion.

4.4 The changes all aim to clarify and provide greater commentary on the Fund's developing approach and the Committee are invited to approve the 2021 Framework with these additions.

5.0 Financial implications

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

6.0 Legal implications

6.1 The report contains no direct legal implications.

7.0 Equalities implications

7.1 The report contains no direct equal opportunities implications.

8.0 Environmental implications

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

9.0 Human resources implications

9.1 The report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 The report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 LAPFF Quarterly Engagement Report:

https://lapfforum.org/wp-content/uploads/2021/01/LAPFF_QER4_2020_final.pdf

11.2 Federated Hermes EOS Public Engagement Report:

Public Engagement Report Q3 2020 - UK Institutional (hermes-investment.com)

12.0 Schedule of appendices

12.1 Appendix A – Responsible Investment Framework March 2021.

12.2 Appendix B – WMPF Engagement Activity.

12.3 Appendix C - WMPF Voting Activity.

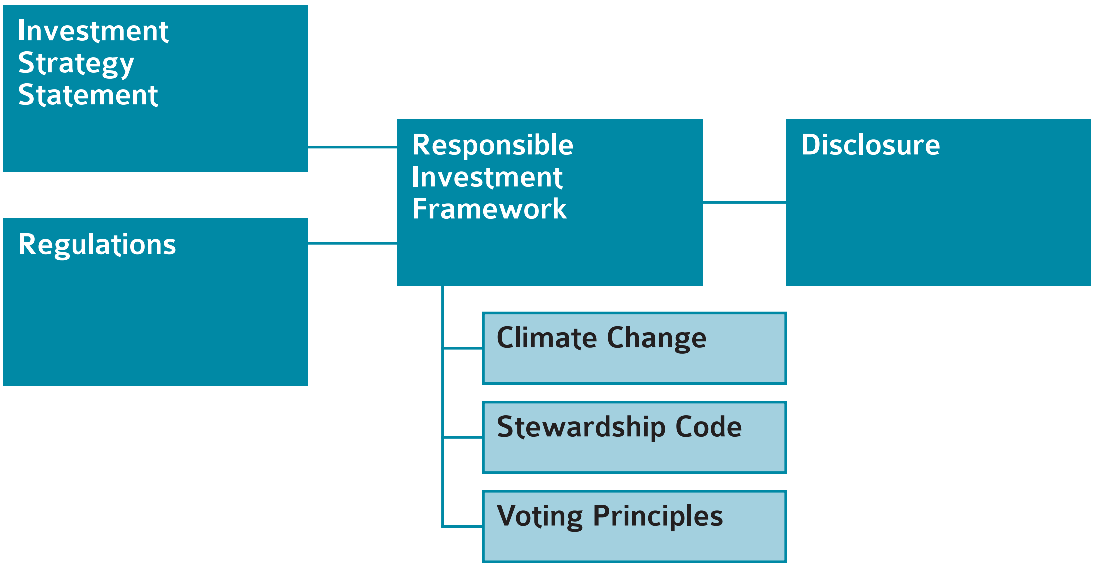
Appendix A

RESPONSIBLE INVESTMENT FRAMEWORK
MARCH 2021

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. This document sets out the overarching framework for Responsible Investment; supporting practical application is the *Climate Change Strategy and Framework, Statement of Alignment 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 Directors. 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 2020 *Responsible Investment Framework*. This statement was approved by Pensions Committee on 24 March 2021.

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 quantitively.
- **Responsible investment** – As long-term owners of capital (assets), the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests is protected and where possible, enhanced. Investing responsibly and engaging as long-term owners reduces risk over time and has been proven to positively impact investment returns. The Fund is integrating responsible investment into the way it selects and stewards all assets.
- **Climate change** – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund's investments. The Fund will consider the impact of climate change in both its asset allocation and investment process 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.

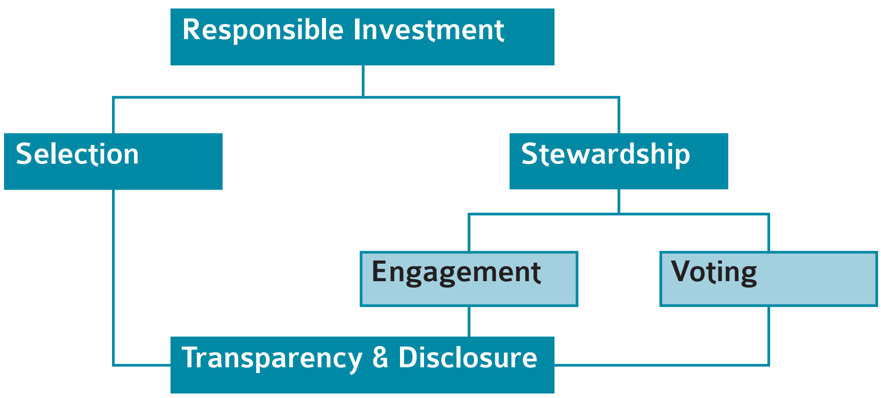
Climate Change

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.

The Fund undertakes and discloses its assessment of financial risk associated with Climate Change and inherent within the investment portfolio, in line with recommendations made by the Taskforce for Climate-related Financial Disclosure (TCFD).

No individual investor nor the investment industry is influential enough to achieve the rate of change required to avoid catastrophic consequences. The Fund supports increasing regulation and guidance for UK pension funds taking effect over 2021 to assess, manage and publish actions on Climate Change.

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 is aiming for full integration of responsible investment principles throughout investment strategy, process and monitoring, with evidence of increasing use of environment, social and governance (ESG) risk factors in decision making throughout the investment value chain.

The Fund aims to be transparent to its stakeholders through regular, high quality disclosure. Disclosures are made quarterly through Pension Committee meetings, regular updates to the Fund's website and annually through the Fund's Annual Report and Accounts and the Climate Related Disclosure Report. 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, incorporating both quantitative and qualitative risk assessment.
- 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[1] 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 a short and defined time period.

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.

[1]For example the UK Stewardship Code

LGPS Central Limited

Since April 2018, Fund assets have transitioned into the LGPS investment pool, and pooled vehicles created by LGPS Central Limited. The pool company has developed a leading approach to RI, requiring all products to meet and retain a standard for RI-integration and thereby supporting 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 polices are in place together with an appointed engagement provider to support regular engagement, monitoring and reporting.

Engagement Through Partnerships

The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships. 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), EOS at Federated Hermes (via a contract held by LGPS Central Ltd), 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[2] at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of RI issues into its investment and stewardship activities.
- How investment and stewardship functions are combined to protect and/or enhance value.
- Any outcomes arising from the manager's engagement with companies and their effectiveness.
- Financial metrics used to assess the risks within the portfolio and how these change over time and/or relative to comparable benchmarks.

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

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 may be 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[3], 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 recommendations made by the Taskforce on Climate-related Financial Disclosures framework (TCFD).

4 ENGAGEMENT THEMES FOR 2020-23

The Fund has selected four engagement themes for the period to 2023: 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 and through its support to 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 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.

  This theme includes a focus on valuing and supporting greater diversity. As a representative of an asset owner diversity working group, and a member of the 30% club, the Fund has pressed for greater gender and ethnicity diversity on company boards. Fund stewardship work

[3]In line with Regulation 57 of the 2013 Regulations.

incorporates a drive for wider-ranging action on equality and inclusion to drive change and increase representation and involvement by all.

- **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. As governments, companies and global economies look to "build back better" over 2021, increased focused on financing and reporting arrangements is expected to increase both to demonstrate action on climate change and to respond to demands to reconsider social value.

5 MEMBERSHIPS AND AFFILIATIONS

Local Authority Pension Fund Forum

The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund's Director of Pensions is currently LAPFF's Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 82 local authority pension funds and seven investment pools from across the country with combined assets of around £300 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), Climate Action 100+, UK RI Roundtable, 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 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, including Fund assets. The Committee includes representatives 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".

West Midlands Pension Fund
PO Box 3948
Wolverhampton
WV1 1XP

LGPS Central Limited

Federated Hermes EOS

Engagement Report, Q4 2020

West Midlands Pension Fund

EOS at Federated Hermes

Engagement by region

Over the last quarter we engaged with **364** companies held in the West Midlands Pension Fund portfolios on a range of **1,050** environmental, social and governance issues and objectives.

Global

We engaged with **364** companies over the last quarter.

- Environmental **30.4%**
- Social and Ethical **22.0%**
- Governance **28.9%**
- Strategy, Risk and Communication **18.8%**

Australia & New Zealand

We engaged with **30** companies over the last quarter.

- Environmental **13.0%**
- Social and Ethical **10.9%**
- Governance **69.6%**
- Strategy, Risk and Communication **6.5%**

Developed Asia

We engaged with **53** companies over the last quarter.

- Environmental **34.6%**
- Social and Ethical **25.7%**
- Governance **25.0%**
- Strategy, Risk and Communication **14.7%**

Emerging & Developing Markets

We engaged with **23** companies over the last quarter.

- Environmental **36.8%**
- Social and Ethical **15.8%**
- Governance **19.3%**
- Strategy, Risk and Communication **28.1%**

Europe

We engaged with **91** companies over the last quarter.

- Environmental **38.1%**
- Social and Ethical **21.7%**
- Governance **21.7%**
- Strategy, Risk and Communication **18.5%**

North America

We engaged with **126** companies over the last quarter.

- Environmental **25.3%**
- Social and Ethical **20.5%**
- Governance **34.3%**
- Strategy, Risk and Communication **19.9%**

United Kingdom

We engaged with **41** companies over the last quarter.

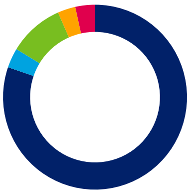
- Environmental **28.4%**
- Social and Ethical **29.9%**
- Governance **21.6%**
- Strategy, Risk and Communication **20.1%**

Engagement by theme

Over the last quarter we engaged with 364 companies held in the West Midlands Pension Fund portfolios on a range of 1,050 environmental, social and governance issues and objectives.

Environmental

Environmental topics featured in 30.4% of our engagements over the last quarter.



- Climate Change 80.3%
- Forestry and Land Use 3.4%
- Pollution and Waste Management 9.7%
- Supply Chain Management 3.1%
- Water 3.4%

Social and Ethical

Social and Ethical topics featured in 22% of our engagements over the last quarter.

- Bribery and Corruption 4.8%
- Conduct and Culture 19.0%
- Diversity 22.5%
- Human Capital Management 15.6%
- Human Rights 31.6%
- Labour Rights 5.6%
- Tax 0.9%

Governance

Governance topics featured in 28.9% of our engagements over the last quarter.

- Board Diversity, Skills and Experience 21.8%
- Board Independence 12.2%
- Executive Remuneration 46.9%
- Shareholder Protection and Rights 14.5%
- Succession Planning 4.6%

Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in 18.8% of our engagements over the last quarter.

- Audit and Accounting 3.6%
- Business Strategy 38.6%
- Cyber Security 4.6%
- Integrated Reporting and Other Disclosure 22.8%
- Risk Management 30.5%

LGPS Central Limited

Federated Hermes EOS

Voting Report, Q4 2020

West Midlands

EOS at Federated Hermes

Over the last quarter we made voting recommendations at 331 meetings (2,523 resolutions). At 162 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **seven** meetings and abstaining at **one** meeting. We supported management on all resolutions at the remaining 161 meetings.

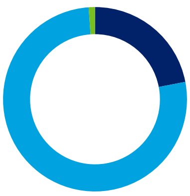
Global

We made voting recommendations at 331 meetings (2,523 resolutions) over the last quarter.

- Total meetings in favour 48.6%
- Meetings against (or against AND abstain) 48.9%
- Meetings abstained 0.3%
- Meetings with management by exception 2.1%

Australia and New Zealand

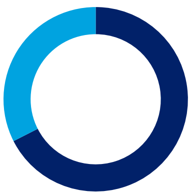
We made voting recommendations at 91 meetings (551 resolutions) over the last quarter.



- Total meetings in favour 22.0%
- Meetings against (or against AND abstain) 76.9%
- Meetings with management by exception 1.1%

Developed Asia

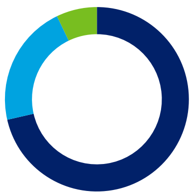
We made voting recommendations at 40 meetings (233 resolutions) over the last quarter.



- Total meetings in favour 67.5%
- Meetings against (or against AND abstain) 32.5%

Emerging and Frontier Markets

We made voting recommendations at 28 meetings (192 resolutions) over the last quarter.



- Total meetings in favour 71.4%
- Meetings against (or against AND abstain) 21.4%
- Meetings with management by exception 7.1%

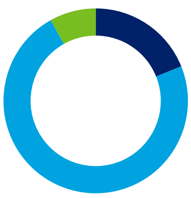
Europe

We made voting recommendations at 73 meetings (505 resolutions) over the last quarter.

- Total meetings in favour 61.6%
- Meetings against (or against AND abstain) 37.0%
- Meetings abstained 1.4%

North America

We made voting recommendations at 37 meetings (380 resolutions) over the last quarter.



- Total meetings in favour 18.9%
- Meetings against (or against AND abstain) 73.0%
- Meetings with management by exception 8.1%

United Kingdom

We made voting recommendations at 62 meetings (662 resolutions) over the last quarter.

- Total meetings in favour 67.7%
- Meetings against (or against AND abstain) 30.6%
- Meetings with management by exception 1.6%

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

Global

We recommended voting against or abstaining on 348 resolutions over the last quarter.

- Board structure 24.4%
- Remuneration 48.3%
- Shareholder resolution 9.5%
- Capital structure and dividends 8.6%
- Amend articles 5.5%
- Audit and accounts 1.7%
- Other 2.0%

Australia and New Zealand

We recommended voting against or abstaining on 146 resolutions over the last quarter.

- Board structure 13.7%
- Remuneration 67.1%
- Shareholder resolution 6.2%
- Capital structure and dividends 5.5%
- Amend articles 7.5%

Developed Asia

We recommended voting against or abstaining on 33 resolutions over the last quarter.

- Board structure 63.6%
- Remuneration 6.1%
- Capital structure and dividends 18.2%
- Audit and accounts 12.1%

Emerging and Frontier Markets

We recommended voting against or abstaining on nine resolutions over the last quarter.

- Board structure 22.2%
- Remuneration 33.3%
- Capital structure and dividends 22.2%
- Amend articles 11.1%
- Other 11.1%

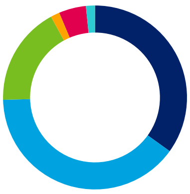
Europe

We recommended voting against or abstaining on 61 resolutions over the last quarter.

- Board structure 21.3%
- Remuneration 24.6%
- Shareholder resolution 16.4%
- Capital structure and dividends 19.7%
- Amend articles 6.6%
- Audit and accounts 3.3%
- Other 8.2%

North America

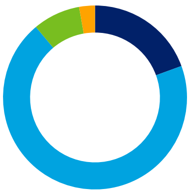
We recommended voting against or abstaining on 63 resolutions over the last quarter.



- Board structure 34.9%
- Remuneration 39.7%
- Shareholder resolution 17.5%
- Capital structure and dividends 1.6%
- Amend articles 4.8%
- Other 1.6%

United Kingdom

We recommended voting against or abstaining on 36 resolutions over the last quarter.



- Board structure 19.4%
- Remuneration 69.4%
- Shareholder resolution 8.3%
- Capital structure and dividends 2.8%

Agenda Item No: 19

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Agenda Item No: 20

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Agenda Item No: 21

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Agenda Item No: 22

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Agenda Item No: 23

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