CITY OF WOLVERHAMPTON COUNCIL	**Pensions Board** 27 April 2021

Time	2.00 pm	**Public Meeting?**	NO	**Type of meeting**	Pensions
Venue	Online Meeting				

Membership

Employer Representatives
Jacqueline Carman
Cllr Jasbir Jaspal
Paul Johnson
Ian Martin
Joe McCormick (Chair)
Mark Smith

Member Representatives
Sharon Campion (Unison)
Stan Ruddock (Unite)
Adrian Turner (Unison : Vice Chair)

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

Information for the Public

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

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Address Democratic Services, Civic Centre, 1st floor, St Peter's Square, Wolverhampton WV1 1RL

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Agenda

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence**

2 **Declarations of Interest**

3 **Minutes of the Previous Meeting** (Pages 5 - 10)
[For approval].

4 **Matters arising**

5 **Customer Engagement Update** (Pages 11 - 34)
[To receive an update on the Fund's customer engagement activity from 1 October 2020 – 31 December 2020.]

6 **Pensions Administration Report from 1 October - 31 December 2020** (Pages 35 - 56)
[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 **Regulatory Update** (Pages 57 - 62)
To receive an update on key developments currently impacting the regulatory environment in which the Fund operates.]

8 **Governance and Assurance** (Pages 63 - 74)
[To receive an update on the work of the Fund to deliver a well governed scheme.]

9 **Internal Audit Plan 2021-2022** (Pages 75 - 86)
[To receive an outline of the work programme for internal audit during 2021 – 2022.]

10 **External Audit Plan 2021** (Pages 87 - 138)
[To receive an update on the plan for the external audit of the Fund's Annual Report and Accounts for 2020 - 2021.]

11 **Corporate Plan 2021-2026** (Pages 139 - 164)
[To receive the proposed Fund Corporate Plan 2021 – 2026.]

12 **Cyber Security** (Pages 165 - 170)
[To receive an update on the activity undertaken in 2020 - 2021 in relation to protect the Fund's data and assets against cybercrime.]

13 **Funding Strategy Statement Review 2021** (Pages 171 - 226)
[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.]

14 **Investment Governance** (Pages 227 - 270)
[To receive an update on investment related matters.]

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Agenda Item No: 3

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

Minutes - 26 January 2021

Attendance

Members of the Pensions Board

Employer Representative
Jacqueline Carman
Paul Johnson
Ian Martin
Joe McCormick (Chair)
Mark Smith

Member Representative
Adrian Turner (Vice-Chair)
Stan Ruddock
Sharon Campion

Employees

Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Rachel Howe	Head of Governance and Corporate Services - West Midlands Pension Fund
Lauren Pote	Governance Support Officer – West Midlands Pension Fund
Hayley Reid	Regulatory Governance Officer - West Midlands Pension Fund
Amy Regler	Head of Operations – West Midlands Pensions 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 Pensions Fund
Kirsty Tuffin	Democratic Services Officer – City of Wolverhampton Council
Fabrica Hastings	Democratic Service Assistant – City of Wolverhampton Council

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Part 1 – items for discussion

Item No. *Title*

1 **Apologies for absence**
Apologies were received from Councillor Jasbir Jaspal and Councillor Hazel Malcolm.

Please note: Adrian Turner, Member Representative, left the meeting at 2:15pm. Jacqueline Carman, Employer Representative left the meeting at 2:15pm due to technical issues but the meeting remained quorate.

2 **Declarations of Interest**
There were no declarations of interest submitted.

3 **Minutes of the Previous Meeting**
That the minutes of the previous meeting held on 20 October 2020 be approved as a correct record.

4 **Matters arising**
Rachel Brothwood, Director of Pensions, advised the Board, as per item 11 of the minutes of the previous meeting, that the audit had now been completed and the Pension Fund annual report had been published on the Funds website, prior to the 1 December 2020 deadline.

Members welcomed Mark Smith, Employer Representative, to the Pension Board.

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

The Board were advised that Mark Smith had been appointed to the vacant employer seat on the Pension Board and that ongoing engagement with the trade unions would continue for member representatives, into the new municipal year.
As part of the Fund's risk management, the main risks highlighted were the capacity within Fund resources with recruitment ongoing, the impact of several regulatory changes and covid-19. The risk on the delivery of service to members had reduced following the work of the Fund's pension services teams, that had developed alternative member engagement methods in light of the covid-19.

The Board were advised that the Fund received six Freedom of Information (FOI) requests this quarter, all of which were responded to within the Council deadlines, set in accordance with statutory timescales.

Rachel Howe advised that Fund officers would circulate the annual Local Pension Board survey to members once issued by the Scheme Advisory Board.

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

6 **Covid-19 Response**
Rachel Howe, Head of Governance and Corporate Services, presented the report on the Fund's response to the covid-19 pandemic and the steps being taken to mitigate service delivery impact.

The Board were advised that the payment of members' pensions had been determined as an essential service and therefore, the Fund's office remains open to a very limited number of staff, to assist in managing the paperwork required to fulfil this function. However, the majority of Fund employees continue to work from home, in line with Government guidance. The wellbeing of employees would continue to be monitored and equipment to support working from home had been provided.

Resolved:

1. That the steps taken by the Fund in response to the Covid-19 pandemic and the ongoing assessment of service delivery impact be noted.

7 **Regulatory Update**

Rachel Brothwood, Director of Pensions, presented the report on key developments currently impacting the regulatory environment in which the Fund operates.

The Board were advised that final guidance from the MHCLG and LGPS Scheme Advisory Board would be issued in the upcoming weeks to inform and confirm review of funding policy in response to new Employer Flexibility regulations. The Fund would be looking to make amendments to its Funding Strategy Statement, subject to receipt of guidance from MHCLG. Proposed changes would form part of a consultation with employers.

The Board were advised that in consultation with the Chair and Vice-Chair of Pensions Committee, officers had implemented an interim approach to address any retirement cases caught by the Exit Payment Cap ahead of changes to the LGPS Regulations. The judicial reviews raised against the exit payment regulations would be heard in March 2021 and cases that had been referred to the Pensions Ombudsman would be placed on hold pending the outcome of these judicial reviews.

Following questions, Rachel Brothwood explained the process for the Fund supporting employers in determining whether the exit pay cap would impact on members' benefits from the Fund and reassured the Board that the Fund would to ensure that employer and member communications issued by the Fund were signposted to relevant stakeholders.

Resolved:

1. That the changes to the regulatory environment which impacted on the administration of the LGPS be noted.

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

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

The Board were advised that overall, the Fund had seen a return to normal levels of incoming work for the report period however, due to a high volume of retirements in August and September, the subsequent KPI had not been achieved for those months. Although this KPI had not been achieved, the average process time for the quarter had been 25 days and within the target of 30 days.

Due to an increase in death notifications, the Fund would be allocating resources to maintain its service delivery and mitigate any impact. Monitoring of cause of death had been established but it was noted that the Fund would only be informed, where beneficiaries chose to provide and on return of subsequent paperwork. Incoming process volumes will continue to be monitored monthly.

The Board were advised that despite the current environment, delivery of the Digital Transformation Programme had been ongoing, and several key projects were live. The new Employer Hub had passed the security phase and went live in November 2020. The Fund will be migrating employers over to the new portal over the coming months. The Pensions Portal functionality which allows deferred members to generate a retirement quote online had also been moved into the live environment during January 2021, for formal launch and wider publication to members to roll out an initial user experience and feedback is tested.

Resolved:

1. That the impact of COVID19 on the workload across service areas supporting pension administration be noted.
2. That the update on progress of the Fund's Digital Transformation Programme be noted.
3. That the enhanced processes in place to routinely test and improve accuracy of Fund member records be noted.

9 **Pensions Administration Benchmarking and Accreditation**

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

The Board were advised that the Fund participated in the annual benchmarking exercises for Pension Administration to support continued improvements and assess value for money. In 2018-19 CEM benchmarking first included Pension Administration for the LGPS and the West Midlands Pension Fund has been an early adopter.

Outcomes from the benchmarking exercise, against Fund's (LGPS and non-LGPS) of similar scale demonstrated that the Fund's member service score had been inline with the peer median and an overall increase in relative service from the 2018/2019 report.

The Board were advised that the Fund were the first Local Government Pension Scheme Fund in England and Wales to successfully achieve the Pension Administration Standards Association (PASA) accreditation which would remain in place for three years. On an annual basis, the Fund will self-assess. The Chair thanked the Fund for their hard work

Amy Regler also noted the submission of the Pensions Regulator's (TPR) annual administration survey, ahead of the deadline.

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.
3. That the Submission of the annual TPR Administration Survey be noted.

10 **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, developments into Quarter 4 2020 and future planned customer engagement activity in the context of the Fund's Customer Engagement Strategy.

The Board were advised that customer engagement activity across the Fund had continued to follow alternate delivery methods that reflect the current environment. Over the period, 32 virtual webinars had taken place with 794 attendees. The webinar sessions were followed up with 396 telephone consultations to Members that had replaced the traditional face-to-face interaction. Feedback on both has been very positive. A programme of webinars for the upcoming year had been planned and would reach the wider extension of the Funds employer base.

The Board were advised that the Fund had issued a further employer survey to aid understanding of potential operational, financial and funding challenges. The survey had received 60 responses and a summary of the responses had been outlined as per the report. Feedback on the Funds virtual Employer General Meeting (AGM), held on 15 December 2020, had been positive and will be reported in more detail for the Board at the next meeting. The Chair thanked all those involved with the AGM and noted its success.

The Fund had met with the Customer Service Excellence (CSE) assessor to discuss customer engagement and were awaiting the report back but had received confirmation of the Funds re-accreditation of 'compliance plus'.

Resolved:

1. That the engagement activity and customer support provided aligned to the Covid-19 restrictions be noted.
2. That the summary results from the most recent employer survey be noted.
3. That the postponement to review the Pensions Administration Strategy (PAS) and the associated consultation, as approved by Pensions Committee on 9 December 2020, be noted.

11 **Investment Governance**

Rachel Brothwood, Director of Pensions, presented the report on investment related matters that included the publication of the Fund's standalone Climate Disclosure Report, prepared in line with recommendations from the Taskforce for Climate-related Financial Disclosures (TCFD) and responsible investment activities, together with the ongoing development of LGPS Central Investment Pool.

The Board were advised that the Fund had been working with partner funds to consider and develop new products in line with the investment strategy requirements of all Partner Funds including the West Midlands Pension Fund. The Fund's Investment Advisory Panel were informed on development processes and providing assistance to the Fund during the process. At the end of 2020, the emerging market debt sub-fund had launched and transition completed for those Partner Fund's investing.

The Board were advised that the Shareholder Forum and Company met in November 2020 and the next meeting would take place on 10 February 2021.

Board members were asked to note that the Fund's investment strategy implementation, new investments and supporting programme of responsible investment activities would be covered in more detail at the joint training events with the Pensions Committee, scheduled for February and March.

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 noted.
2. That the update on investment governance matters including those in relation to responsible investment and investment pooling, be noted.

Agenda Item No: 5

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 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 to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Board is asked to note:

1. The engagement activity and informed service development.

1.0 Purpose

1.1 To provide Board 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 Services 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 Fund's 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 2020, 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 customers' journeys, 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 4 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 55 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 has produced 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 has been produced and demonstrated to Pension Board and Committee members at the training event in March 2021.

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 posted over **100,000** Pensioner Newsletters along with members P60.

5.7 The Fund's Customer Engagement Plan has now been extended to detail planned events for all stakeholders up to 31March 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. The revised policy, as approved by Pensions Committee on 24 March 2021, is 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 This report contains no direct human resources implications.

12.0 Corporate landlord implications

12.1 The report contains no direct corporate landlord implications.

13.0 Schedule of background papers

13.1 Customer Service Excellence Report (available upon request)

14.0 Schedule of appendices

14.1 Appendix A – Events attended and webinar feedback Oct– Dec 2020

14.2 Appendix B – Individual pension conversation feedback Oct – Dec 2020

14.3 Appendix C – Annual General Meeting feedback

14.4 Appendix D – Customer Engagement Plan

14.5 Appendix E - Communications Policy 2021

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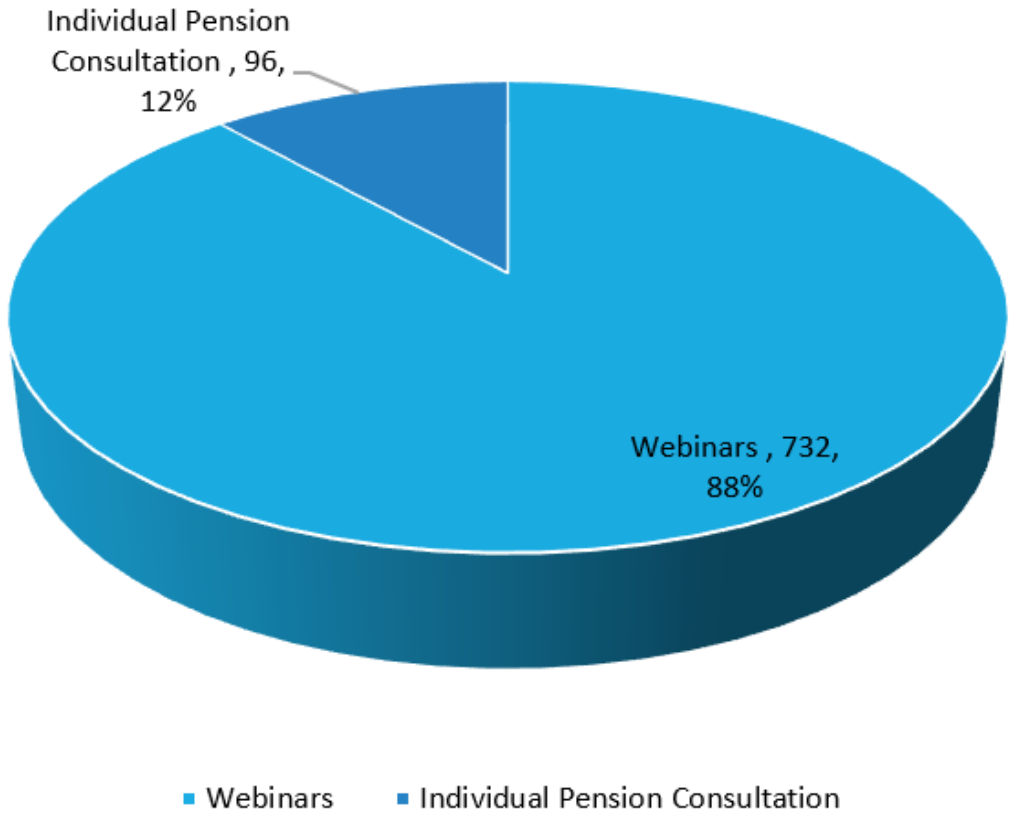
West Midlands Pension Fund

Member Services Team – Events Attended
1st October – 31st December 2020



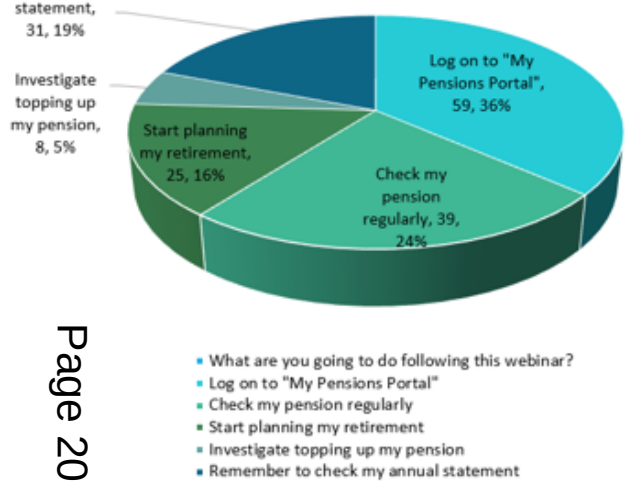
Event Type	Attendance
Telephone 121s	96
Webinar	732
Total	**828**

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

West Midlands Pension Fund

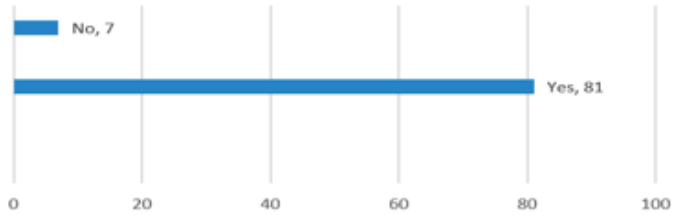
Members feedback on the following areas

What are you going to do following this webinar?

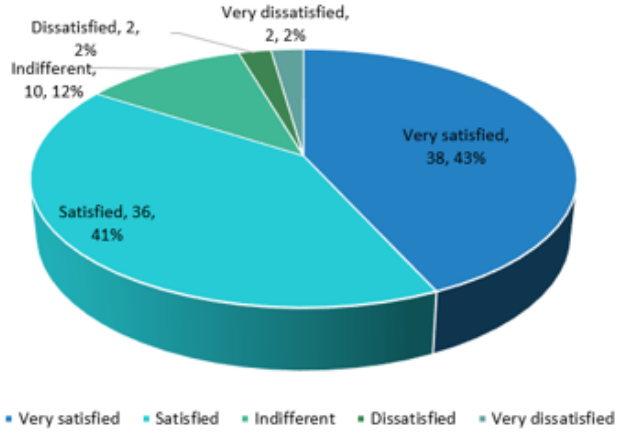


Members surveyed in October - December 2020

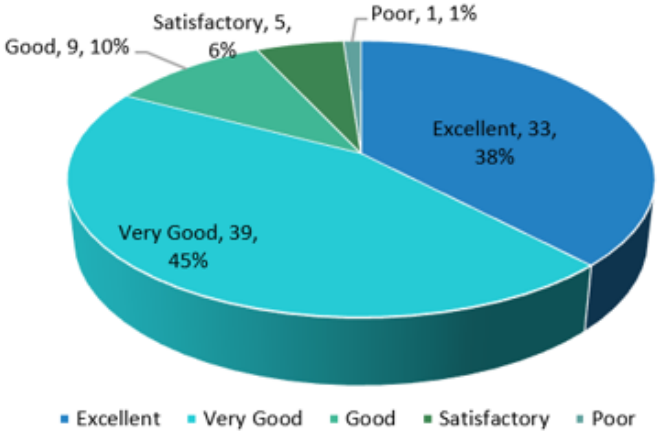
Would you recommend a colleague to attend this type of event?



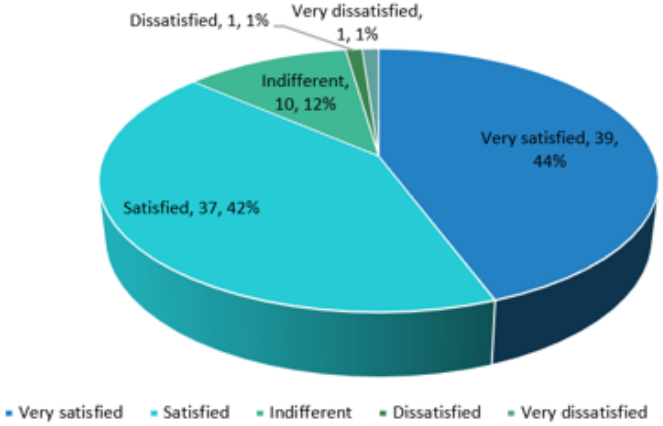
How satisfied are you with your most recent interaction with the WMPF?



How would you rate the presenters general knowledge and presentation skills?



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



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

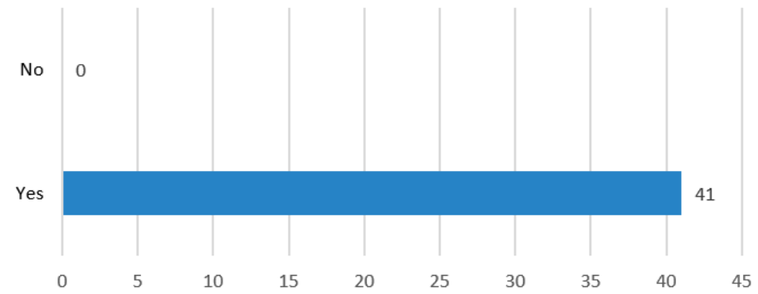
West Midlands Pension Fund

Members feedback on the following areas

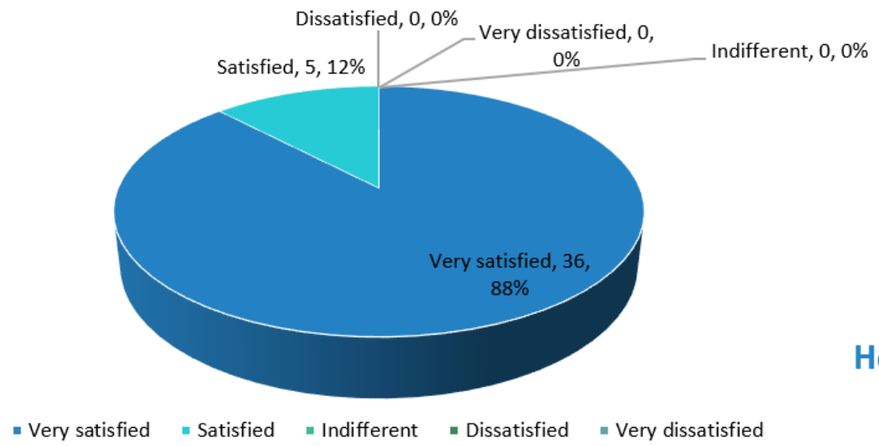
How would you rate the officers general knowledge and skills?

Members surveyed in October - December 2020

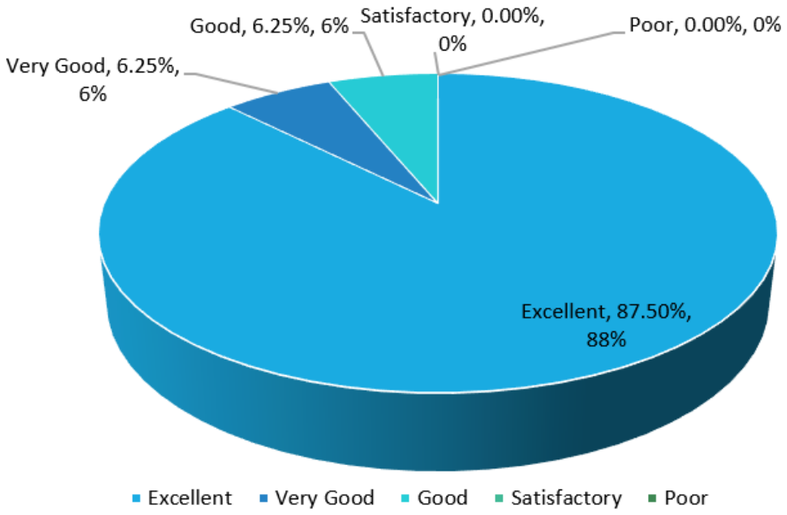
Would you recommend a colleague to attend this type of event?



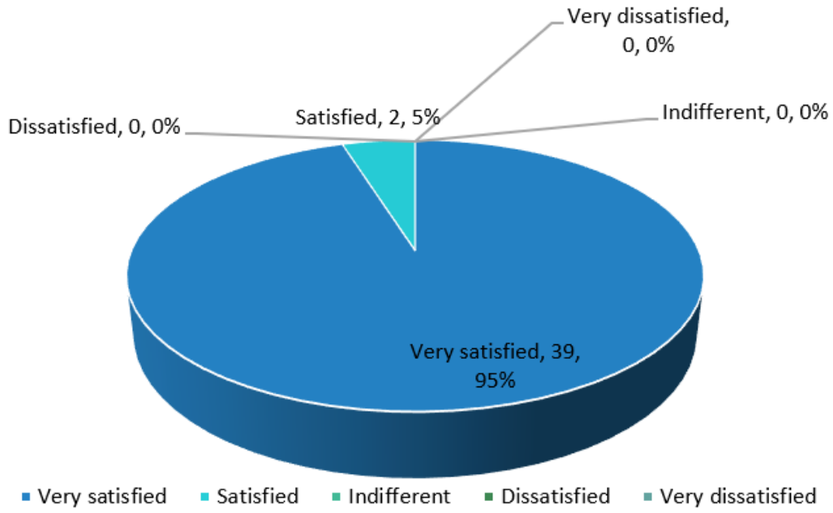
How satisfied are you with the overall service you have received from the West Midlands Pension Fund?



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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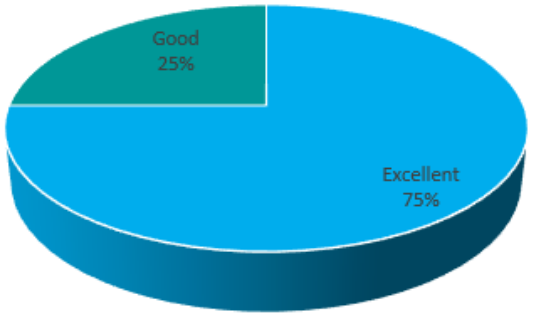
West Midlands Pension Fund

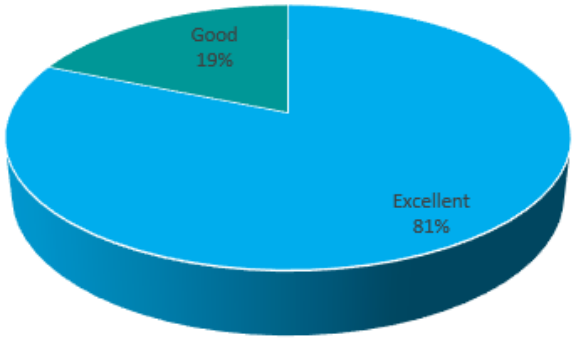
2020 Annual General Meeting Feedback – Employers

16 attendees provided feedback.

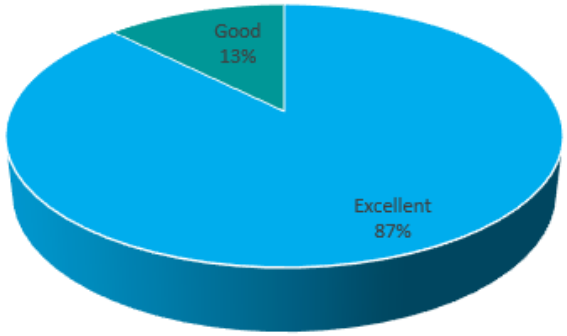
How would you rate the employers' virtual AGM?



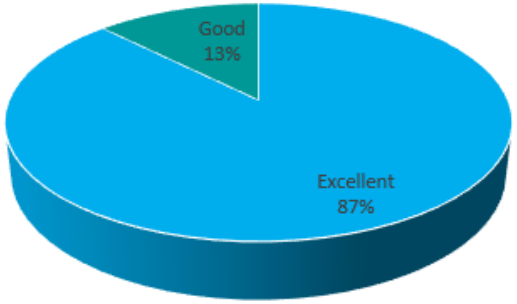
Please rate the ease of registration of the event.



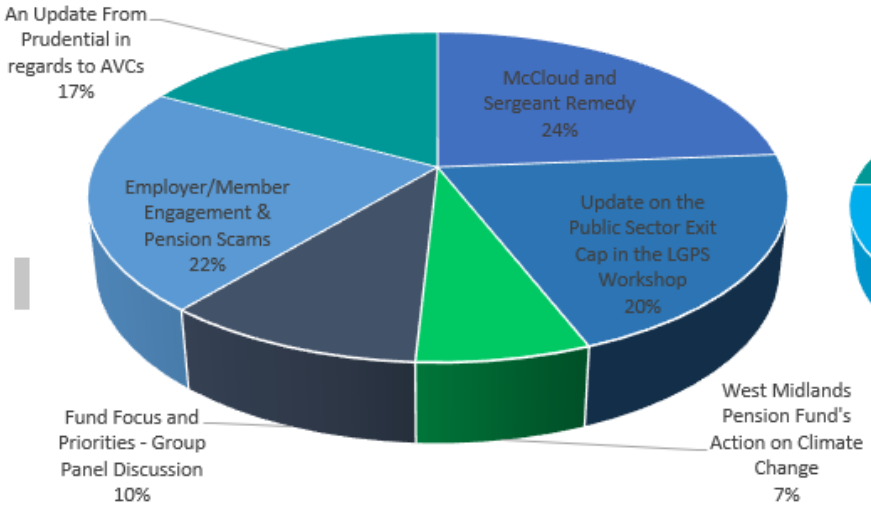
Please rate the quality of information provided?



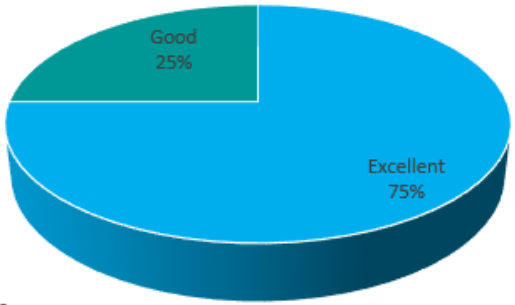
Please rate the presenters and pace of the event.

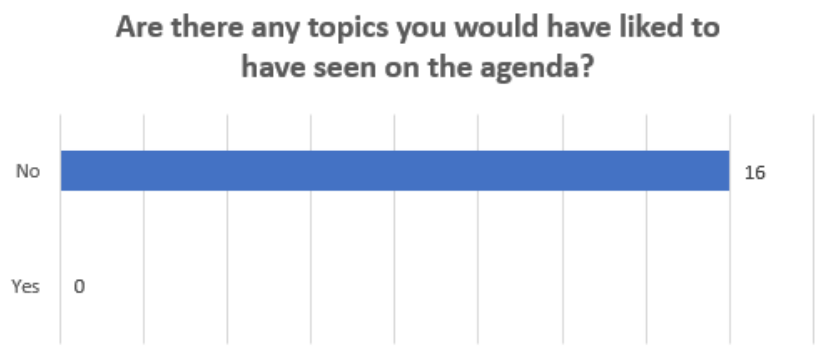


Which agenda item(s) do you feel were most relevant to your organisation?



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

	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

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.

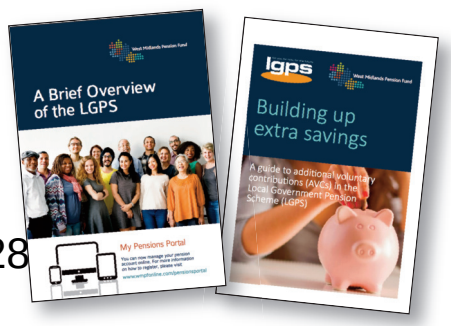
In April 2006, the Local Government Pension Scheme (LGPS) regulations were amended to state that each pension fund administering authority is required to prepare, publish and review regularly its communications policy statement, the regulations outline what funds are required to publish.

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

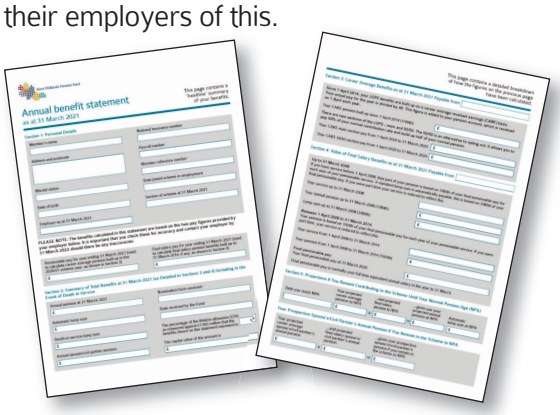
The Fund produces annual newsletters for our active, deferred and pensioner members.

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).

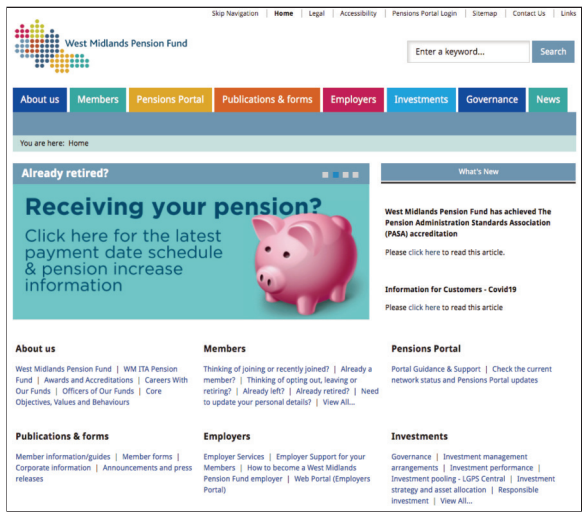
This facility provides members with an online platform to enable them to update their personal details and contact the fund about their benefits.

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 Board** 27 April 2021

Report Title	Pensions Administration Report from 1 October – 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 to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Pensions Board 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 of processing and record keeping.
4. The Fund's pledge to the Pension Regulator to combat pension scams and protect scheme members.
5. The updated Internal Dispute Resolution Procedure.

1.0 Purpose

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

2.0 Background

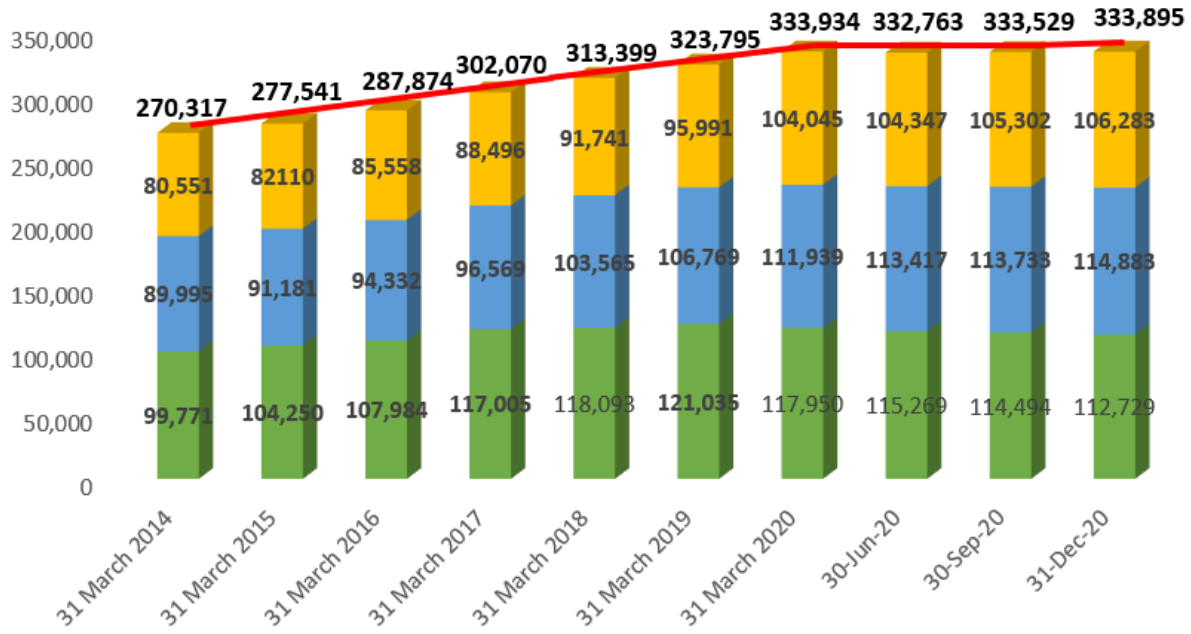
2.1 The Fund provides a pension administration service covering employer, customer and member services, data processing, benefit operations, payroll and systems/technical support. A report is provided to Board on a quarterly basis to assist monitoring of the activity and performance of these functions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

3.0 Scheme Activity

3.1 Membership Movement – Main Fund

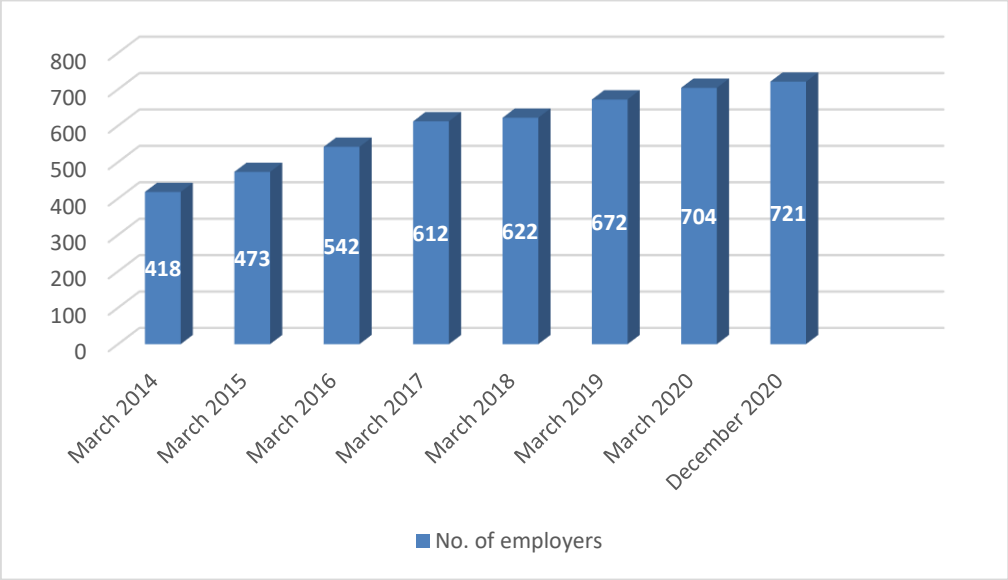
3.1.1 The total number of scheme member records in the Fund at 31 December 2020 stands at 333,895, with an overall increase since September 2020 of 366. The long-term trend over a 12-year period in membership continues to illustrate a move towards a more mature profile whereby, in general, pensioners 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**

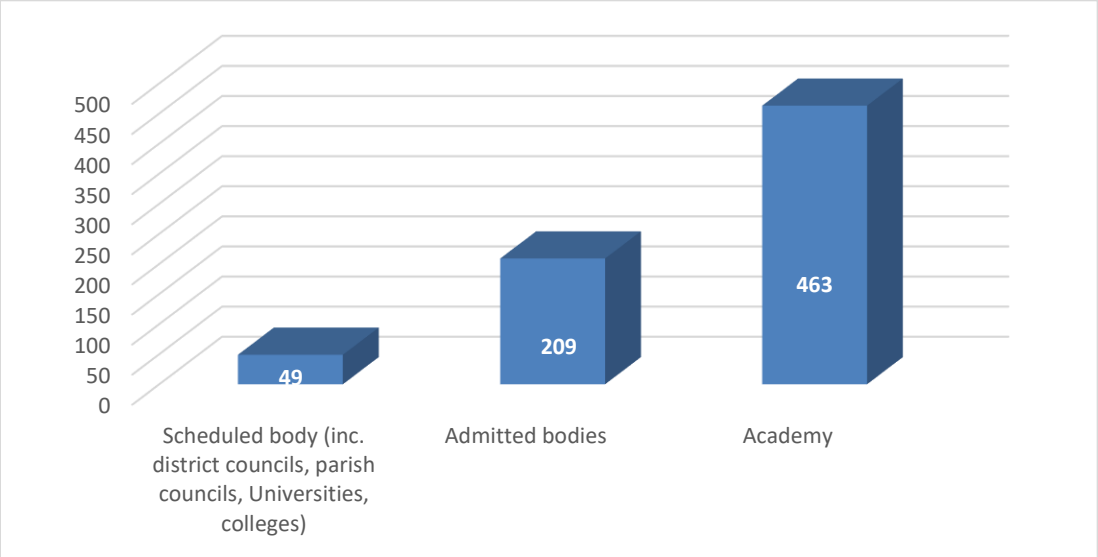


3.2 Employer Membership

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



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



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

- 92 admission agreements
- 11 academies
- 51 employer terminations

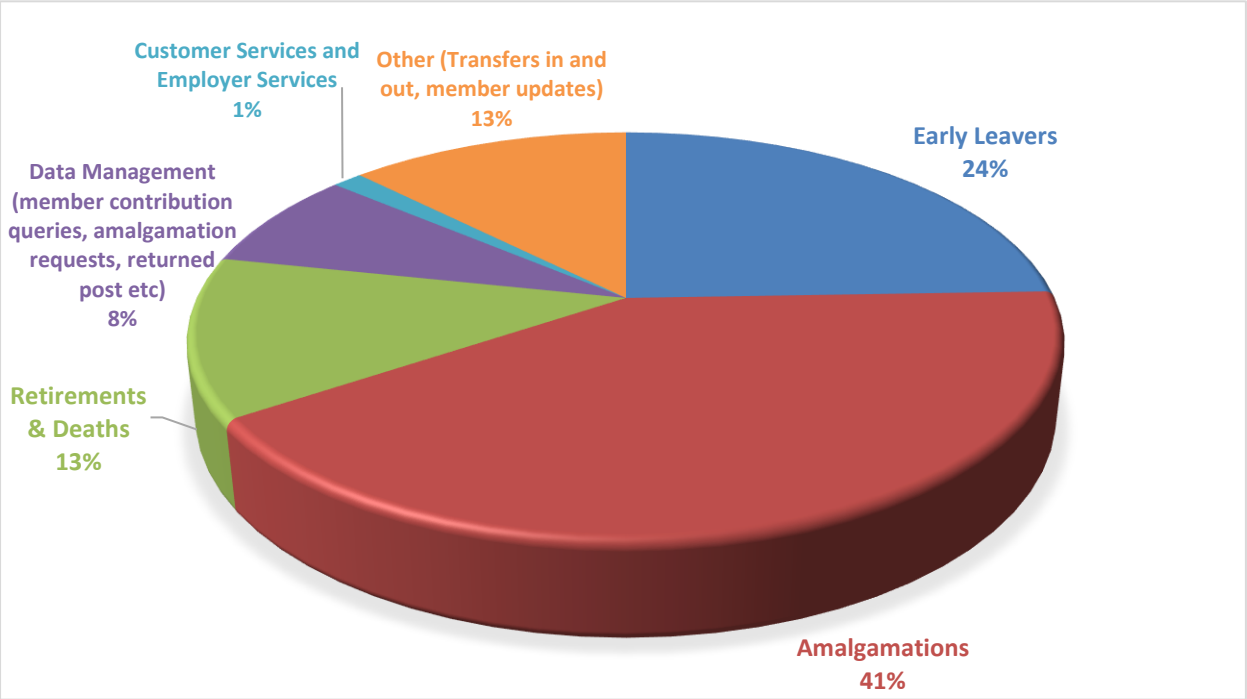
3.3 Workflow Statistics

3.3.1 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.

3.3.2 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.

3.3.3 The overall 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 and January 2021. The Fund is monitoring workloads on a weekly basis and ensuring resource is reallocated as far as possible to maintain service delivery and mitigate the impact on timescales and performance relative to KPI target. A summary of the processes started and completed is detailed in Appendix A.

3.3.4 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.

3.3.5 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 January 2021 report to Board, 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 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 c450 employers already live, from April 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 Internal Dispute Resolution Procedure (IDRP)

6.1 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.

6.2 The IDRP document sets out the procedure on how the Fund will work with employers in managing the internal dispute resolution process 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.

6.3 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 clarifying 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.

6.4 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.

6.5 A final version of the updated procedure document is in Appendix D for noting.

7.0 Overseas Existence checking – 2020/21

7.1 The Fund has in the region of 1,600 overseas pensioner members, who 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.

7.2 In 2020/21 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.

7.3 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 of 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.

8.0 tPR Pledge against Pension Scams

8.1 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.

8.2 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.

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

9.0 Financial implications

9.1 The report contains financial information which should be noted.

9.2 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.

10.0 Legal implications

10.1 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.

11.0 Equalities implications

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

12.0 Environmental implications

12.1 The report contains no direct environmental implications.

13.0 Human resources implications

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

14.0 Corporate landlord implications

14.1 The report contains no direct corporate landlord implications.

15.0 Schedule of background papers

15.1 None.

16.0 Schedule of appendices

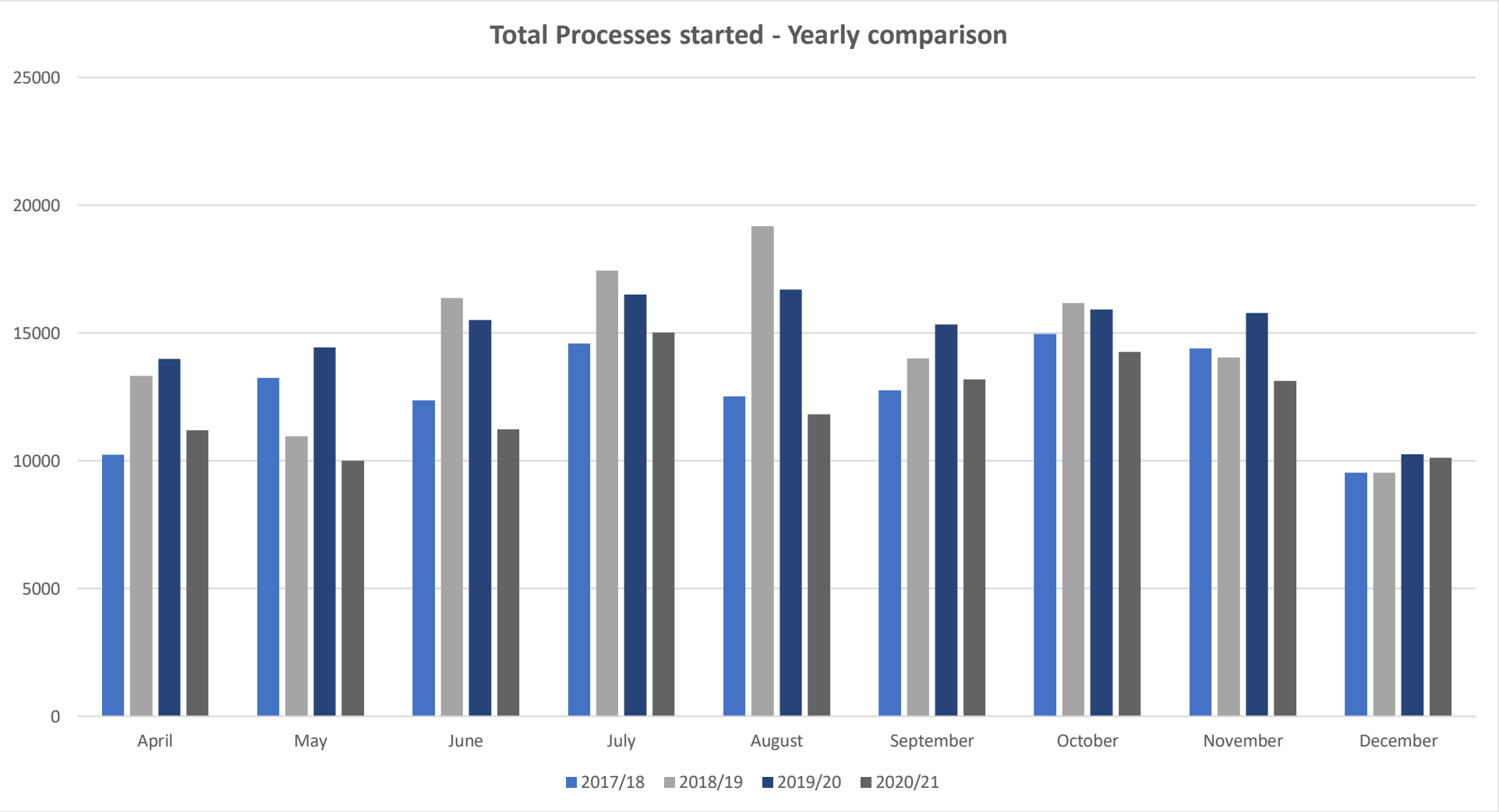
16.1 Appendix A: Process Summary

16.2 Appendix B: Detailed process analysis

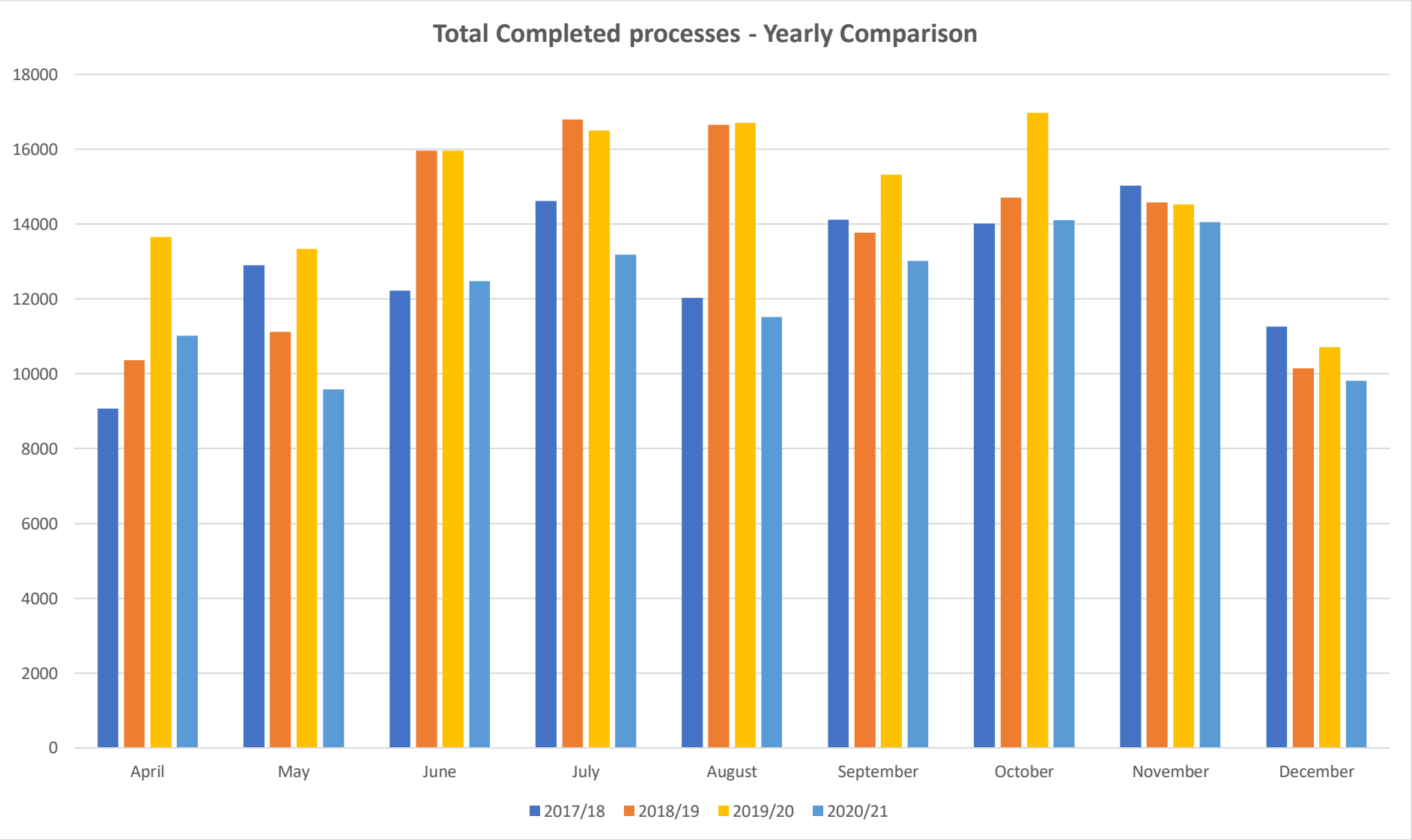
16.3 Appendix C: Key performance indicators (KPIs)

16.4 Appendix D: Internal Dispute Resolution Procedure 2021

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																					
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																					
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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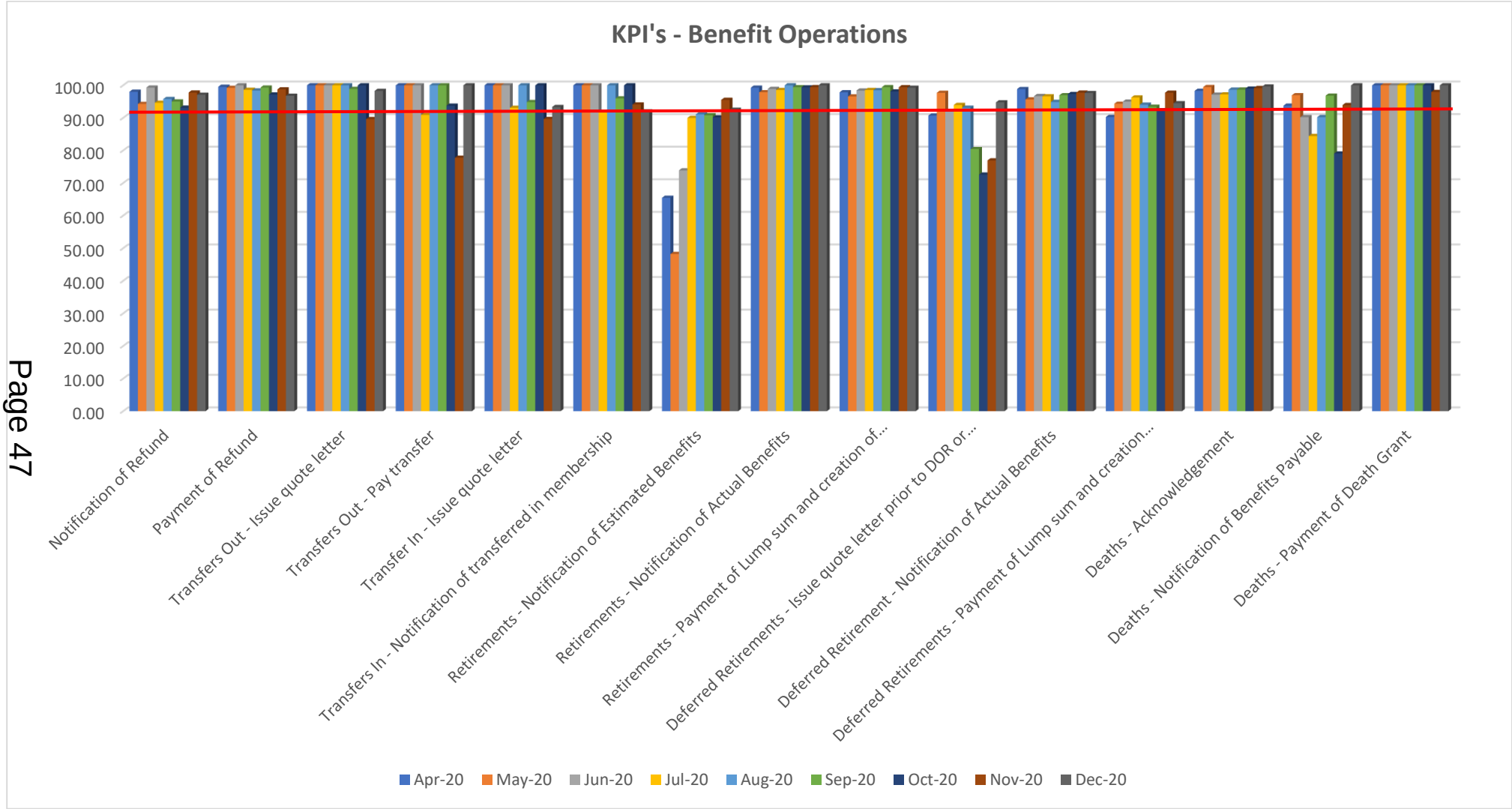
Appendix C


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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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.

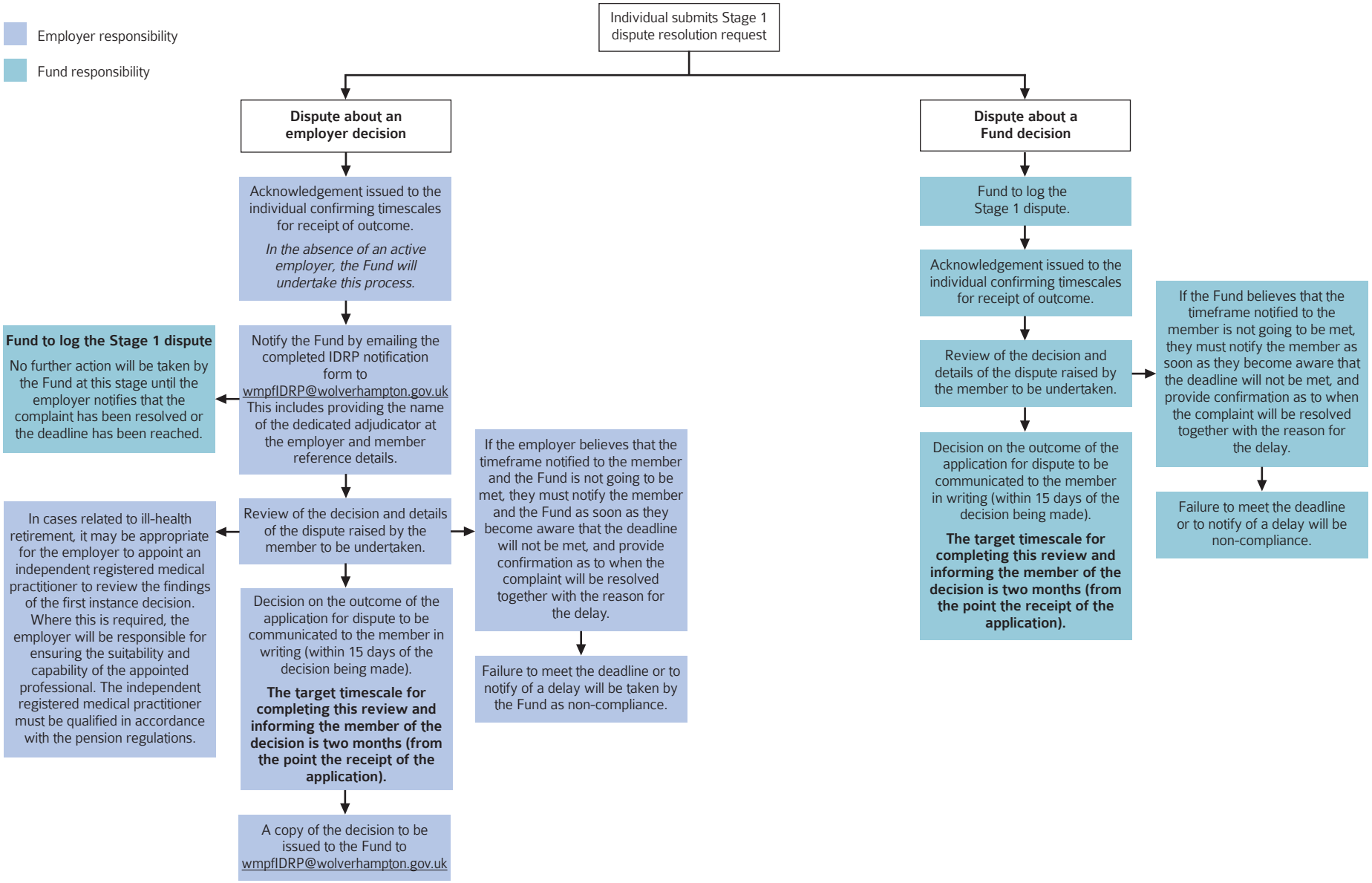
ROLES AND RESPONSIBILITIES

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

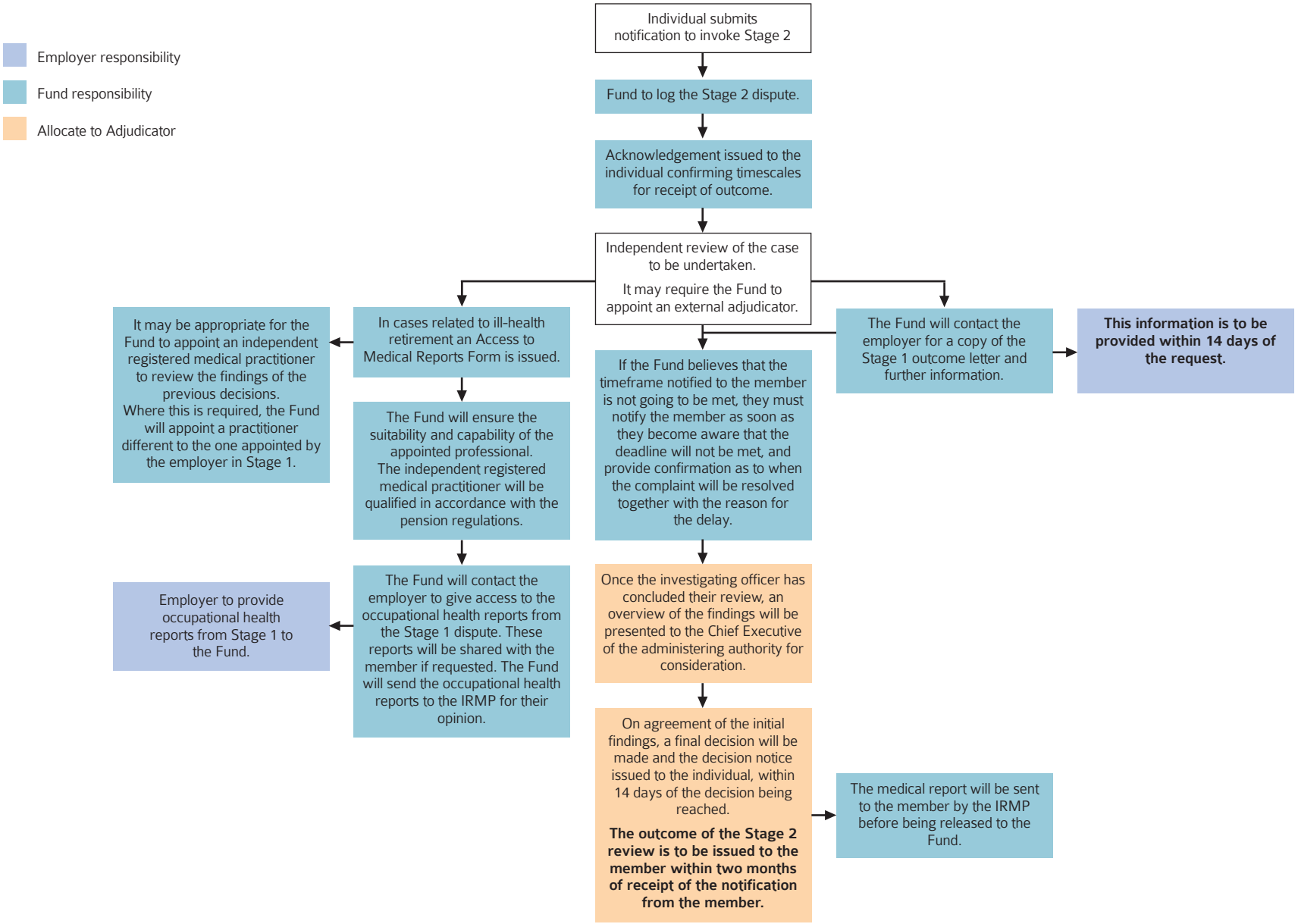
Stage 1

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.



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

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Agenda Item No: 7

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 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 to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Board 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 Board 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 (reverted processes)

2.1.1 The Restriction of Public Sector Exit Payments 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 pay 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 withdrawing its letter of 28 October (in which it outlined its interpretation of the exit cap regulations and their application to LGPS Funds). This latest letter also confirms that the consultation on Reforming Exit Pay 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 coming into force (4th November 2020) and the date of these 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 had the exit pay Regulations not been in force. The West Midlands Pension 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 Pay Regulations have been revoked, it is anticipated that an amended approach may be forthcoming in managing 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 the Scheme Advisory Board (SAB) published phase three of their Good Governance Review, conducted in conjunction with Hymans Robertson. As previously reported, 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 the 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 Local Government Pension Scheme, 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 Board along with progress on the Fund's review of the Fund's progress with regards to the implementation of recommendations 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. It can be noted that 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 5 years. Work will continue on developing its reporting in these areas with an updated Governance statement being prepared for presentation to Pensions Committee in June and Pensions Board in July and as part of the annual policy review framework.

2.3 The Pensions Regulators (TPR) Single Code of Practice

2.3.1 On 17 March 2021 the Pensions Regulator launched their consultation on their singular code of practice. As previously reported, the Regulator has reviewed their current 15 codes of practice and created one single code. The ten-week consultation runs until 26 May 2021.

2.3.2 It is the Regulator's intention that the formation of one shorter, web-based, 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.

2.3.3 In reviewing the draft code and in order to respond to the consultation the Fund are in the process of undertaking an analysis of the Regulator's existing code of practice (code of practice 14) and the draft single code with the view to identifying new requirements and areas where enhancements to current practices may be required in future.

2.3.4 The draft code is made up of 51 modules which cover the five following themes:

- The Governing Body, including structure, activities and the knowledge and understanding that Governing Bodies are expected to have and maintain, (It should be noted that these requirements will now apply to the Pensions Committee as well as the Pensions Board), risk management and scheme governance
- Funding and Investment, including investment reporting, monitoring, climate change and stewardship
- Administration, covering information handling, contributions and maintenance of IT systems which includes the maintenance of effective cyber security measures
- Communications and Disclosure, covering information provided to members and information that governing bodies are required to publish
- Reporting to TPR including regular reports, whistleblowing, breaches of law and the results of biennial governance assessments.

2.3.5 Details of the Fund's response to the consultation and ongoing work in relation to the single code will be reported to the Pensions Board in July.

2.4 MHCLG, consultation and legislation.

2.4.1 The Pension Schemes Act 2021 came into force on 11 February 2021 and with it brings new powers for the Pensions Regulator, 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 has responded to the DWP consultation and is engaging in the development of legislation and guidance for the LGPS 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. Board 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 6 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). While changes to the LGPS regulations will require further consultation, the approach from MHCLG outlines a direction of travel which the Fund will continue to monitor.

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 changes to be brought in by 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 fine from both the Pension Regulator and the Courts via judicial review.

5.0 Equalities implications

5.1 There are no direct equalities implications.

6.0 Environmental implications

6.1 There are no direct environmental implications.

7.0 Human resources implications

7.1 There are no direct human resources implications.

8.0 Corporate landlord implications

8.1 There are 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

9.3 The Pensions Regulators Draft Single Code of Practice

9.4 Fund response to DWP Climate Risk Consultation – March 2021

10.0 Schedule of appendices

10.1 None.

Agenda Item No: 8

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 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 to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for approval:

The Pensions Board is recommended to approve:

1. The appointment of Julian Allam to the vacant Unite member representative seat.
2. The establishment of an Appointments Panel to receive nominations for the year 2021-2022.

Recommendations for noting:

The Pensions Board 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-19 pandemic and the ongoing assessment of service delivery impact.

1.0 Purpose

1.1 To seek approval for annual governance matters in relation to the Local Pensions Board and provide the Board with an update on the work of the Fund to deliver a well governed scheme.

2.0 Nominations to the Local Pension Board

2.1 Following communication with Unite regarding their vacant member representative seat, a nomination was received for Julian Allam in February 2021. The Fund welcomes this nomination to commence in the new municipal year.

2.2 The Fund will continue to liaise with GMB regarding a nomination to their vacant member representative seat in readiness for the new municipal year.

2.3 The Board are asked to instigate the nomination process in line with the terms of reference for the Local Pensions Board, it is permissible for those who stand down to be re-nominated by their representative group.

2.4 In accordance with the Board's terms of reference the Local Pensions Board are requested to form an Appointments Panel consisting of the Chair and Vice Chair (where they are not due for nomination), together with the Director of Pensions and the Director of Governance and Corporate Services, who will consider nominations for employer representatives and their capacity to sit on the Board. Nominations will be sought following this meeting to allow for formal appointment commencing from June in readiness for the first meeting of the democratic year in July.

3.0 Risk Management

3.1 Strategic Risk Register

3.1.1 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.

3.1.2 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 two risks reducing, noting the controls in place and the active monitoring to manage the Fund's response.

3.1.3 Following review of operational risk maps, two risks have been removed from the Strategic Risk Register in relation to investment pooling which are considered to have evolved and reduced noting also 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.

3.2 Areas of Concern

3.2.1 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".

3.2.2 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 Covid-19 pandemic.

3.2.3 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.

3.2.4 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.

4.0 Compliance Monitoring

4.1 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 in early April 2021 focusing on prevention of data breaches.

4.2 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.

4.3 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 that seven third party requests for member information have also been received. As reported previously, the third-party requests for information were received from claims management 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.

5.0 Annual Regulator Activity

5.1 In accordance with the deadline set, the Fund have submitted their response to the Pension Regulator's (TPR) Annual Governance and Administration survey. As reported to Board in January, 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 Board following publication alongside any areas of improvement identified through the results.

5.2 The Fund continue to await the issue of the Scheme Advisory Board's (SAB) Local Pensions Board survey which is expected to assess 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 Board.

6.0 Key Performance Indicators

6.1 The Fund's KPIs for this quarter are attached at Appendix C and again notes a slight downward trend in a couple of 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 Board.

7.0 Response to Covid-19

7.1 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.

7.2 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.

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

8.0 Financial implications

8.1 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.

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

9.0 Legal implications

9.1 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.

10.0 Equalities implications

10.1 There are no direct equalities implications.

11.0 Environmental implications

11.1 There are no direct environmental implications.

12.0 Human resources implications

12.1 There are no direct human resources implications.

13.0 Corporate landlord implications

13.1 There are no direct corporate landlord implications.

14.0 Schedule of background papers

14.1 Governance and Assurance Paper - Pensions Board 26 January 2021

15.0 Schedule of appendices

15.1 Appendix A: Strategic Risk Register

15.2 Appendix B: Areas being monitored in the current environment

15.3 Appendix C: Key Performance Indicators – Quarter 3 monitoring

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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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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: 9

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 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 to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Board is asked to note:

1. The Internal audit plan for 2021 – 2022.

1.0 Purpose

1.1 To provide the Board 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 2020/21 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 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no direct equalities implications.

7.0 Environmental implications

7.1 This report contains no direct environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of Appendices

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

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West Midlands Pension Fund

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

Agenda Item No: 10

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 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 to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Board is asked to note:

1. The external audit plan for the 2020/21 Annual Report and Accounts as prepared by Grant Thornton.

1.0 Purpose

1.1 The purpose of this report is to inform Pensions Board of the plan for the external audit of the Fund's Annual Report and Accounts for 2020/21.

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 2020/21

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 management on these areas. The document provides management responses to a number of questions posed by the auditor. (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 Pensions 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 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no direct equalities implications.

7.0 Environmental implications

7.1 This report contains no direct environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of Appendices

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

11.2 Appendix B: Informing the Audit Risk Assessment for West Midlands Pension Fund 2020/21

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Grant Thornton

Appendix A

West Midlands Pension Fund audit plan

Year ending 31 March 2021

West Midlands Pension Fund

4 March 2021

Contents

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

Key matters

Factors

Pension Fund developments

The latest financial data available (quarter 3 accounts) indicates that the value of the Fund has rebounded significantly from a position of £15.3bn as at 31 March 2020 to and unaudited position of £18.7bn as at 31 December 2020. This is reflective of a reduction in the overall level of uncertainty in relation to the pandemic, a muted impact of the end of the Brexit transition period and increased stability in international energy markets (with a particular focus on resolution of the disputes between oil producing countries seen in the previous year).

However, as we touch on below, there remain specific challenges and uncertainties in relation to the wider economic and political environment which will draw our attention as auditors and which management must work to mitigate.

Impact of Covid 19 pandemic

From an operational perspective, the Fund continues to manage the pandemic well, ensuring a continuation of the day to day financial management of the organisation and production of key financial information in line with agreed timetables. However, from our perspective as external auditors, remote working continues to present an operational challenge, in particular in relation to the time taken to obtain and process information in a remote setting.

At a higher level, whilst the pandemic situation broadly appears to be improving and optimisms returning to markets, there remain some specific areas where uncertainty remains. The Fund has some significant holdings in travel based assets which were a focus of our audit procedures on the prior period and will remain so this year due to the impact of continued lockdown restrictions on commuting and leisure travel. Furthermore, we anticipate that uncertainty in the property markets will remain as the possibility of increased unemployment and permanent changes to working and shopping patterns (amongst other factors) emerge. Whilst property markets do appear to have stabilised and few funds remain 'gated' we recognise there remains the possibility that the Fund's valuers will signal a material valuation uncertainty in relation to directly held property which will necessitate an increased level of focus by our team in this area and potentially in other property related assets. Further information on our approach is set out later in the report.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work is outlined further on in this report.
- We have determined that due to the nature of the governance arrangements that the administrative authority has put in place that formally the Audit & Risk Committee of the City of Wolverhampton Council are those charged with governance. However, as this acts upon recommendations from the Pensions Committee and our reports are shared with it we have determined that the Pensions Committee as the sub-group with whom we are required to communicate with. We will continue to provide you with sector updates via our Sector Updates and Progress Reports.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control per page 5.
- The Pension Fund's property valuer reported a material uncertainty in regards to the valuation of direct properties in 2019/20 due to the Covid 19 pandemic. Whilst property markets have stabilised uncertainty has continued in 2020/21. We have identified a significant risk in regards to the valuation of direct properties – refer to page 6.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

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

Scope of our audit

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

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

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue recognition cycle (including those related to expenditure) contains fraudulent transactions (rebutted)
- Management override of controls
- The valuation of Level 3 investments is incorrect
- The valuation of Directly Held Property is incorrect

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £165m (PY £140m) for the Pension Fund, which equates to approximately 0.9% of your net assets as at 31 December 2020. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £8.25m (PY £7m).

Audit logistics

Our interim visits will take place in March and April and our final visit will take place during the summer between June and September. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our audit fee is currently under discussion with management and our regulators. The scale fee for the audit is £37,436, however we anticipate that this will be uplifted as a result of changes to auditing standards in relation to estimates, additional regulatory requirements and operational pressures stemming from remote working arrangements as a result of the pandemic. We will communicate the agreed fee to the Committee in due course.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted, because: - there is little incentive to manipulate revenue and expenditure recognition - opportunities to manipulate revenue and expenditure recognition are very limited; and - the culture and ethical frameworks of local authorities, including the administering authority for the Fund, City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for West Midlands Pension Fund.
Management over-ride of controls	Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of assets and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Directly Held Property (Level 3 Investment) (Annual revaluation)	The Council revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (expected to be around £1bn at the balance sheet date) and the sensitivity of this estimate to changes in key assumptions. Management engage the services of a valuer to estimate the value at the balance sheet date as well as an investment manager for the portfolio. We have therefore identified valuation of directly held property assets, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will; • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • independently request year-end confirmations from the investment manager; • evaluate the competence, capabilities and objectivity of the valuation expert, engaging an auditor's expert to assist; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • where available, review the investment manager service auditor report on design effectiveness of relevant controls.
Valuation of Level 3 Investments (Annual revaluation)	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair values of these assets. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • Evaluate management's processes for valuing Level 3 investments • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure that the requirements of the Code are met; • Independently request year-end confirmations from investment managers, with an additional focus on ensuring use of appropriate IPEV (or equivalent) methodology in their valuation books, updated for most recent available guidance in relation to Covid 19; • For a sample of investments, test the valuation by comparing the valuation per the General Ledger (typically based on an investor statement as at the reporting date or, in the case of harder to value assets, the latest capital statement available adjusted for known cash movements in the final quarter of the year) to direct confirmation of capital balances from Investment Mangers and, where available, latest audited financial statements; • Complete sample testing of purchases and sales to prime documentation across the period to support our reconciliation of opening and closing balances; • Analyse the Fund's holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or economic impact of Brexit; • Engage the Firm's internal Actuary to provide assurance over the ITA Fund insurance buy-in.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Pension Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of directly held property
- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have engaged with management and obtained an understanding of the control environment around estimates via the Informing the Risk Assessment document, which will be presented separately to the Pension Committee. We would ask that Committee members familiarise themselves with the report, ensure that they understand the information provided around calculation of estimates and flag up any instances where the information supplied by management is inconsistent with their understanding.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

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

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

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Pension Fund's financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings Report.

Issue and risk previously communicated	Update on actions taken to address the issue
Contributions – use of incorrect employer contributions rate by scheme employers During the audit we noted a number of cases where employers used an incorrect Future Service Rate to calculate employer's contributions. In total, employers had applied a lower FSR rate which amounted to a net £150k overpayment of contributions. Although the impact identified was clearly trivial to the financial statements, there is a possibility that this may be a material issue for smaller employers themselves and could cause significant issues if encountered at a larger employer.	The Fund has controls in place to identify and highlight all instances where employers may not have applied the Future Service contribution rate as expected which we anticipate would identify any cases where this would significantly impact the financial statements. We will consider whether this issue continues to impact the financial statements at year end and are also aware that management are looking to begin a process of automating some controls around receipt of contributions to make the process of identifying and investigating these issues more efficient. We will report to the Committee on this issue as we progress with our work.
Contributions – reconciliation between notional and cash value of contributions As a result of the option to pre-pay Future and Past Service Contributions, this now results in frequent, substantial year on year variances on contributions receivable which present a challenge to the auditor in assessing completeness of the population.	Our review of this process for the current year is scheduled to take place during a later interim visit. We will report back to the Committee on progress against this recommendation in due course.
Third party cash balances Audit procedures performed in relation to cash balances identified a small cash balance being held in a Fund bank account (and accounted for using the Fund's General Ledger system) which does not form part of the Fund's financial structure.	Per discussions with management during the last audit, our understanding is that, from October 2020, a separate bank account was set up to monitor the bank account in question. We are due to complete our review of this area in a subsequent interim visit and will report back to the Committee on progress against this recommendation in due course.

Materiality

The concept of materiality

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

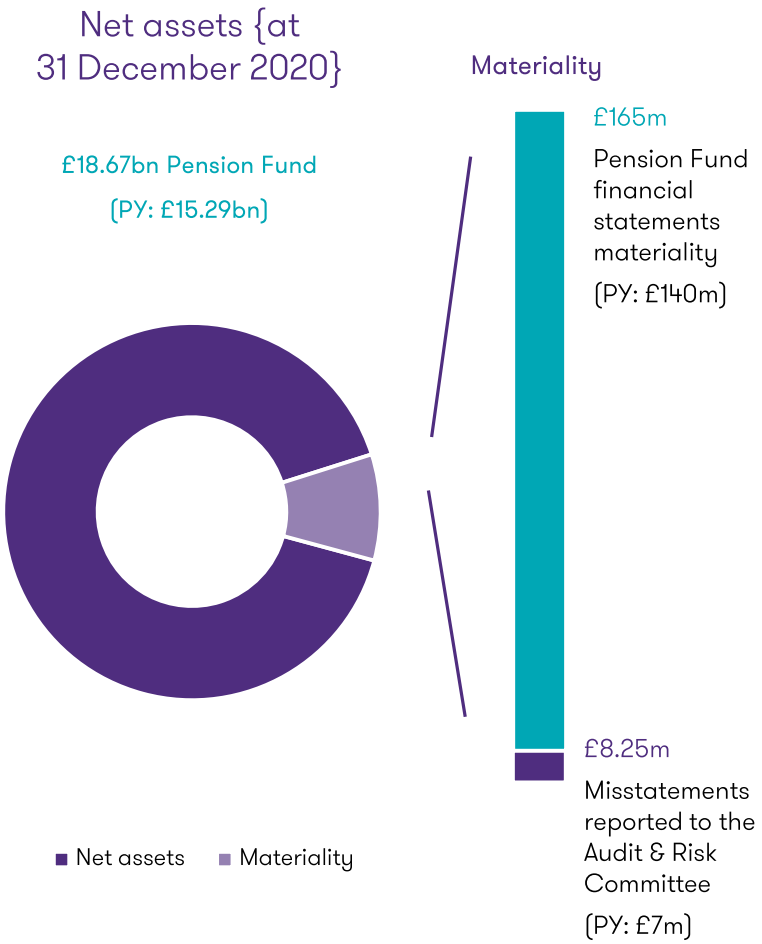
Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £165m (PY £140m), which equates to approximately 0.9% of your net assets as at 31 December 2020. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Pension Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pension Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £8.25m (PY £7m).

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



Audit logistics and team

Grant Patterson, Key Audit Partner

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

David Rowley, Audit Manager

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

Elliot Baker, Audit Incharge

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

Audited body responsibilities

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

Our requirements

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

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

Audit fees

In 2018, PSAA awarded a contract of audit for West Midlands Pension Fund to begin with effect from 2018/19. The scale fee for the 2020/21 audit is £37,436. Since 2018/19 there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. As noted above the scale fee for the 2020/21 audit is £37,436, however we anticipate that this will be uplifted as a result of:

- changes to auditing standards in relation to estimates,
- additional regulatory requirements and operational pressures stemming from remote working arrangements as a result of the pandemic
- the need to engage auditor's experts to improve the level of assurance we require in relation to the valuation of directly held property assets, the insurance buy-in held in relation to the former ITA pension fund and valuation of derivatives

Our proposed fee for 2020/21 is currently under discussion with management and our regulators and will be communicated to the Committee in due course.

We include details of our prior period and 2018/19 fees for reference.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
West Midlands Pension Fund Audit	£44,010	£55,931	TBC
Total audit fees (excluding VAT)	£44,010	£55,931	TBC

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

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

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	9,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,250 in comparison to the total scale fee for the audit of £37,436 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. Please note, the fee quoted here is an indicative fee based on the prior period. This may increase depending on the level of requests for assurance received.
Non-audit related		No non-audit related services identified	
TOTAL	9,250		

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
SQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

Grant Thornton

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Appendix B

Informing the audit risk assessment for West Midlands Pension Fund 2020/21

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

Table of Contents

Purpose

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

Background

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

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

Communication

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

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from West Midlands Pension Fund's management. The Pensions Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Following the finalisation of the actuarial valuation as at 31 March 2019, a new certificate of future service contribution rates and past service deficit requirements became effective on 1 April 2020. A number of larger employers have chosen to pay their full three year future service and past service deficit contributions in advance as lump sums in April 2020. Consequently the 2020/21 accounts will report significantly higher contributions receivable as compared with 2019/20 and 2018/19.
2. Have you considered the appropriateness of the accounting policies adopted by West Midlands Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Management has considered the appropriateness of the accounting policies adopted by the Fund and prepared a paper to confirm so for the Pensions Committee meeting in March 2021. There have been no events or transactions arising during the year which are expected to result in the Fund changing an accounting policy or adopting a new accounting policy.
3. Is there any use of financial instruments, including derivatives?	During 2020/21, the Fund has made use of both Forward Foreign currency and Futures derivative contracts.
4. Are you aware of any significant transaction outside the normal course of business?	Management is not aware of any significant transaction outside the normal course of business.

General Enquiries of Management

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

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
1. Have West Midlands Pension Fund assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Pension Fund's risk management processes link to financial reporting?	The Pension Fund accounts are consolidated into the accounts of City of Wolverhampton Council. Fraud risks are identified by the City's Internal Audit function in their audit plan covering the Pension Fund. All fundamental systems which feed the City's Statement of Accounts including the Pension Fund accounts are reviewed annually to ensure that controls in place are satisfactory. The Statement of Pension Fund Accounts is also subject to an analytical review each year which considers any significant or material changes to figures to confirm that the accounts are presented without such misstatements.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within West Midlands Pension Fund as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	There have been no such instances. The Fund reports on a quarterly basis its risk management to the Pensions Committee and Local Pensions Board noting movements in risks together with horizon scanning potential future events which could impact service delivery. In addition the Fund's Pensions Committee adopted its investment risk and assurance framework at its March 2020 meeting. On an annual basis the Fund delivers a Risk Management workshop to its governing bodies. Pensions Committee receives a quarterly Governance Assurance report which reports on an exception basis any issues highlighted through the Fund's assurance program. No instances of fraud have been reported this year.

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within West Midlands Pension Fund where fraud is more likely to occur?	No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary. The Fund has recently reviewed and enhanced its process for authorising Transfer out and death grant payments to ensure a robust decision making process in the processing of high level payments as well as enhancing delegations to sign off those process within the Operations Teams.
5. What processes do West Midlands Pensions Fund have in place to identify and respond to risks of fraud?	Specific fraud risks are identified in the internal audit planning process noted above; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Pension Fund. This is done through the Council's Anti - Fraud, Bribery and Corruption Policy, Whistle Blowing Policy and supported by bespoke Fund training sessions on cyber crime and data protection. In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption with controls built into all UPM system processes. In relation to pensioner payroll, the Fund undertakes monthly mortality screening with a third party provider and also participates in the biennial National Fraud Initiative scheme. Any queries identified are investigated and resolved. Investment Managers and their Administrators send internal control reports and these are reviewed by the Fund's Compliance team and any exceptions reported on. Internal Audit also review the internal control reports as part of their annual audit cycle. Pension Committee meetings monitor the Fund's investment managers and business risk including fraud.

Fraud risk assessment

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

Fraud risk assessment

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

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Pensions Committee? How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The Internal Audit Risk Based Plan is approved by the Audit Committee of City of Wolverhampton Council and the Pensions Committee in relation to pensions issues before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to the Audit Committee. The Pensions Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, the Audit Committee receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes. The Pension Fund members are informed at their meetings of any pension based issues.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Management are not aware of any whistle blowing complaints in relation to the Pension Fund.
13. Have any reports been made under the Bribery Act?	No reports have been made under the Bribery Act.

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does West Midlands Pension Fund have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?	The Pension Fund has a Head of Governance and Head of Finance who provide assurance that all relevant laws and regulations have been complied with. The Director of Pensions at the West Midlands Pension Fund provides expertise and advice for Pension Fund requirements. The Pension Fund is obliged to follow the Local Government Pensions Scheme Regulations. The Pensions Committee receive reports of compliance from officers, who are suitably qualified. Any non compliance would be reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues. These would cover the pension fund as applicable. Each year the Pensions Fund's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Pension Fund has a robust corporate governance and risk management process in place which is based on approved polices and procedures.
2. How is the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?	The Pensions Committee receive reports of compliance from officers who are suitably qualified. Any non compliance would be reported to management and the Pensions Committee via Internal Audit reports.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	There have been no instances of non-compliance with laws and regulations since 1 April 2020 with an ongoing impact on the 2020/21 financial statements.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	The Head of Finance is not aware of any actual or potential litigation or claims that would affect the financial statements.

Impact of laws and regulations

Question	Management response
5. What arrangements does West Midlands Pension Fund have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Pensions Fund. Any potential liabilities would be highlighted each year in the Pensions Fund's Statement of Accounts and accounted for in accordance with accounting standards.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	Management is not aware of any such reports of non-compliance.

Related Parties

Issue

Matters in relation to Related Parties

West Midlands Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

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

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

Related Parties

Question	Management response
1. Have their been any changes in the related parties disclosed in West Midlands Pension Fund's 2019/20 financial statements? If so please summarise: • the nature of the relationship between these related parties and West Midlands Pension Fund • whether West Midlands Pension Fund has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	There have been no changes in the related parties disclosed in the 2019/20 financial statements.
2. What controls does West Midlands Pension Fund have in place to identify, account for and disclose related party transactions and relationships?	The Fund keeps a register of all Pension Committee and Pension Board member interests which it is required to publish on its website. The Fund has a compliance manual which outlines specific roles required to disclose personal interests covering senior managers and those in the investments and finance team. The Fund has a personal dealing policy for managing individual staff members' own investment interests to ensure there is no conflict with Fund investment strategy.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Transactions with related parties are conducted at 'arms length' and are subject to the same controls for authorisation and approval as non related party transactions.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	All transactions are in the normal course of business.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Private Equity and Infrastructure investment holdings are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Direct property is valued at fair value by external independent property valuation experts.
2. How does the Pension Fund's risk management process identify and addresses risks relating to accounting estimates?	Having identified a reasonably possible range of outcomes for methods and assumptions employed, sensitivity analysis is prepared (either provided by the external expert or calculated within the Fund itself) to help inform management's view of the point estimates.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	In the case of material estimates where valuation cannot be based on unambiguous observable market data alone and requires various valuation techniques relying on the application of significant specialised knowledge and judgement, management recognises the need to procure professional expertise. The relevant professionals advise management who will seek to understand the different options in terms of assumptions and methods available to the experts before agreeing the option that is deemed most appropriate for the circumstances and the source data that will be required.
4. How do management review the outcomes of previous accounting estimates?	When the actual year end external valuations of Private Equity and Infrastructure investment holdings are received, management compares them to the respective historical valuation estimates. Variances are analysed and queried with a view to improving the estimation process.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes have been made to estimation processes during 2020/21.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	In the case of material estimates where valuation cannot be based on unambiguous observable market data alone and requires various valuation techniques relying on the application of significant specialised knowledge and judgement, management recognises the need to procure professional expertise. An actuary advises on the defined benefit liability estimate, a property valuer prepares the quarter end direct property valuation and independent investment consultants review the reasonableness of level 3 asset valuations.
7. How does the Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	In the case of material estimates where valuation cannot be based on unambiguous observable market data alone and requires various valuation techniques relying on the application of significant specialised knowledge and judgement, management employs the services of relevant professional experts to prepare estimates.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	The Fund undertakes annual assurance confirmation of the controls environment for its fund managers requiring the submission of their Internal Control Reports (AAF/ISAE/SOC1). For those managers who do not undertake such a review they are requested to complete a Pension Fund Compliance Monitoring Form. Exceptions are noted from these documents with material exceptions being investigated further and reported through to the Assistant Directors of Investments.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	The significant accounting estimates are the defined benefit liability valuation, the year end value placed on the insurance buy-in contract, the valuation of direct property holdings portfolio and the valuation of the Fund's other level 3 assets (private equity and infrastructure holdings). Management recognises the need for specialised skills and judgement in developing these estimates and procures the relevant professional expertise. Management understands and then agrees the assumptions and methods to be used by the experts in support of their calculations. Having identified a reasonably possible range of outcomes for methods and assumptions employed, sensitivity analysis is prepared (either provided by the external expert or calculated within the Fund itself) to help inform management's view of the point estimates.

Accounting Estimates - General Enquiries of Management

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

Appendix A Accounting Estimates

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

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems to identified where goods have been received but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No
Contributions	If March values will not be readily available at the time of compiling the accounts then there maybe a degree of estimation involved in calculating month 12 contributions. Finance team would then estimate the month 12 contributions based on actual figures to the end of March 2021.	Management reconcile this estimate of contributions to the actuals received for month 12.	No	Monthly contributions are usually based on known values. Where month 12 figures are estimated the latest available information is used.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property Valuations	Property is valued at fair value by property valuations experts. If March values will not be readily available at the time of compiling the accounts then there maybe a degree of estimation involved in the valuation.	December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end valuation to determine any significant fluctuations.	Property valuer		No
Provisions for liabilities	Accruals are made in the year end financial statements but there have been no provisions for liabilities this year.				

Appendix A Accounting Estimates (Continued)

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

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Agenda Item No: 11

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 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 to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Board is asked to note:

1. The Fund's Corporate Plan 2021-2026 which was approved by the Pensions Committee on 24 March 2021.

1.0 Purpose

1.1 To present the Board with the Fund's 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 continuous development and delivery of 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), transformation of our member offering with online webinars and E-books and ongoing investment pooling, as well as 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 employees 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. This was approved by the Pensions Committee in March 2021, together with the Fund's operational budget and medium term Financial Plan.

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. There are no direct equalities implications.

6.0 Environmental implications

6.1 There are no direct environmental implications.

7.0 Human resources implications

7.1 There are no direct human resources implications.

8.0 Corporate landlord implications

8.1 There are no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 Pensions Committee 24 March 2021 – Budget 2021/2022 and Financial Plan 2025/2026

10.0 Schedule of appendices

10.1 Appendix A: Corporate Plan 2021 – 2026

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CORPORATE PLAN 2021 – 2026

Contributing together to create sustainable futures for all

West Midlands Pension Fund

OUR FUND

The West Midlands Pension Fund is one of the largest UK Pension Funds serving in excess of 330,000 public sector employees and more than 750 employers across the West Midlands Region, holding assets under management of around £18 billion across a diversified portfolio designed to serve and deliver cashflow in support of our members' pension benefits.

The Fund has a long-standing history across the West Midlands region. Borne out of the historic West Midlands County Council, we work on behalf of the seven District Council Authorities to provide opportunities for members to plan for a retirement future which serves the needs of individual circumstance.

£18.7bn assets under management

343,000 members

764 employers

Introduction From Director of Pensions

Our Corporate Plan for 2021-2026 has been developed following an unprecedented year for the Fund, our members and employers. The coronavirus pandemic has taught us a lot about the things we do well; those which are important and how we should continue to review and develop our Fund and the services we provide to ensure sustainable futures for all.

In a year in which many organisations were forced to come to a standstill and reduce service, we have adapted and been able to build new offerings to support our members and employers through uncertain times. Information and support services have moved online, our new employer hub has launched and although the demand and need for face to face engagement is still there, we have been able to provide a lifeline to many at a time of great need and unfortunately, personal loss. Our increasing need for technology and systems to develop to increase service accessibility, develop working efficiencies and enhance controls has come to the fore, with a focus on supporting and protecting our employees and customers as they interact with the Fund and their pension savings.

Events this year have reinforced more than ever the importance of strong governance, responsible investment practice, the value of diversity and inclusion and need for proactive response to Climate Change. Alongside our accreditations for our administration, people and customer service, the development of our cyber strategy, investment engagement themes, investment pooling programme and publication of our investment Climate Risk assessment highlight the progress we are making to retain strong governance.

Our engagement network and commitments have broadened over the year as we look to increase collaboration for global influence and continue active stewardship in partnership to drive an increased pace of change, calling out where action is needed to protect human rights and increase responsible financial management. Sustainability and long term resilience are themes which flow through our investment strategy, engagement priorities and corporate agenda.

We continue to develop a programme of "growing our own" talent, equipping employees with the tools they need to succeed and support their well-being. Our recruitment programme has continued to see strong interest and will remain a key strand of our work towards enhancing equality diversity and inclusion with the Fund and the organisations we work with, delivering for our local people and communities within the West Midlands.

Looking ahead and over the next five years, our corporate plan seeks to build on progress to date. We have programmes in train to respond to Scheme regulatory change and increasing disclosure of action on Climate Change. Developing the Fund workspace and environment to support our people, service delivery and collaboration through new office premises is a priority for 2021 as we look to build on new working practices, live to the environmental and technological standards we expect from others and provide a central forum for a sustainable future within the Local Government Pension Scheme.

This plan has been developed in collaboration with our key stakeholders – our governing bodies (including member representatives), employers and employees. All will play a role in its delivery and ongoing progress review and we thank all for their support in our ongoing growth and development.

Rachel Brothwood
Director of Pensions

Executive Summary

In developing our Corporate Plan we have engaged with our People and Stakeholders and have taken stock of the world in which we operate to identify challenges, opportunities and risk which may determine our path over the next one to five years.

We have seen an appetite to continue to adapt the Fund's approach in how we engage, communicate and support. With demand across all channels of delivery, there is greater opportunity to reach our customers. We will continue to develop our people and working environment to provide timely, accessible and cost effective services. Recognising the growing complexity and interest in pension saving and how the contributions we collect are invested for the future, we recognise and embrace the opportunity for collaboration with our key stakeholders for mutual benefit.

A YEAR IN REVIEW

Our goals and ambitions 2020 – 2025

Our Service Plan 2020-2025 outlined three themes driving our service development and delivery

- **Information management** – improving the information we collect and hold to enable us to better know our customers and ensure we are using this to manage and improve performance
- **Risk management** – ensuring our financial and operational risk management practices were supporting implementation of our funding and investment strategy, supported by an evolving assurance framework
- **Efficiency and resourcing** – developing the tools and our people to increase capacity and manage ongoing change

Progress has been made in each of these areas, and the themes remain relevant as we continue to build our Corporate Pan for 2021-2025.

Our Corporate Priorities in 2020 Information Management | Risk Management | Efficiency and Resourcing

Internal Development; enhancing operational efficiencies

For the Fund, 2020 was a busy yet successful year with services maintained and transformed to enable ongoing support to our members and employers, the pandemic created opportunity to bring forward and roll out more rapidly online member and employer face to face support and system developments to support operational performance. The Fund has been recognised for these achievements across a number of accrediting bodies and industry organisations, most recently through becoming the first LGPS Fund in England and Wales to achieve PASA Accreditation in November 2020.

Social and Employer Responsibility; building partnerships

While the start of the financial year was a very uncertain time for markets, the Fund maintained its position as a long term investor focused on implementation of investment strategy which plays the most significant role in continuing to meet the long term liabilities of the Fund.

Throughout the year the Fund focussed engagement with employers on their own response to the Covid pandemic, supporting our understanding of their key issues through regular surveys and delivering support sessions.

For our own employees, we assessed the impact and risk of Covid with well being and safety being at the heart of our priorities and focus, ensuring we could maintain service delivery for our customers.

Our 2020 Climate Risk Disclosure report was prepared based on analysis undertaken by our investment pool company, and partner, LGPS Central Limited

Financial and information management; improving data

Most notably there has been a step change to the way organisations and their workforces interact, increasing opportunities for technology-led innovation but also placing a spotlight on accessibility, reliability and the ongoing need to respect and keep both online spaces and the data we hold informative, accurate and safe.

Over 2020/21 we have developed the Fund's Cyber Strategy, enhancing our monitoring and testing programme to further build our framework for continuing to develop resilience and protection of our information and data.

Alongside this, our new employer hub and enhanced electronic exchanges of data, together with our approach to employer engagement provide a platform for demonstratable success in improving the quality of our membership data records.

In partnership with our employers, and building on the success of our annual employer health check exercise, we have seen examples of noticeable advances in data quality aligned to structured improvement plans.

Our Corporate Priorities in 2020 Information Management | Risk Management | Efficiency and Resourcing

Local and Regional Engagement

Across the pensions industry we have seen growing focus on pension saving and retirement planning, raising awareness of the issues which affect the value of retirement income and interest in how pension fund assets are invested and managed. The Pensions Schemes Act 2021 seeks to improve protections for pensions savers, with increased protection against pension scams, rising standards of governance for Scheme managers and step change in the governance of climate risk management. Across the Public Sector changes to LGPS regulations to remedy and develop Scheme benefits have the potential to pull on available resource of Funds while adding to the myriad of complexity within benefit calculations; supporting members through the review and potential adjustment to their benefits will be of paramount importance as we move forward.

Along with the growing complexity in scheme rules, member and employer numbers continue to grow, with increasing rates of movement due to role and employment changes and employer restructuring. We acknowledge the financial responsibility of our employers in providing the LGPS to members, and engage extensively across the employer-base to better understand the associated challenges and affordability pressures. It is paramount to our collaborative success that the Fund is able to engage employers to understand their requirements and challenges, to support delivery of services and inform members enabling decisions to be taken in relation to their pensions savings.

More broadly, the Fund has made allocations to investments which have provided support to finance small and medium size businesses, enable local housing development and sustainable energy projects.

Enhancing Operational Efficiencies

Despite the uncertainty of the last 12 months, a number of key ambitions set out in our 2020 Service Plan have been achieved, most recently with the launch of a new Employer Hub as part of the Fund's Digital Transformation Programme – the first group of employers transitioned across to the new platform during November 2020 following a period of extensive testing, with further roll out undertaken through the first quarter of 2021/22. This is a key step forward in the Fund's delivery of its employer engagement, providing an enhanced self-service platform to support delivery of the Fund's Pension Administration Strategy and Data Management Strategy.

Investment pooling has continued to progress alongside implementation of change to investment strategy. Transition and increase in allocation to Emerging Market Debt has enabled this strategy to develop. Alongside this the Fund's climate change risk assessment from 2017/18 has been refreshed and enhanced to test resilience and aid monitoring of risk exposure.

Developing People and Skills

Our people and their ongoing development continues to be at the heart of prioritising service delivery. This year the Fund adapted its member engagement to ensure key information and support was still available to individuals affected by the uncertainty of the pandemic with our customer contact centre maintaining service delivery and our member services team adapting their offering to incorporate webinars and virtual one-to-one meetings to ensure information was still available to members in the comfort of their own homes.

An achievement recognised in our reaccreditation for Customer Service Excellence, in November 2020.

CUSTOMER SERVICE EXCELLENCE® CSE

Support and development of our own people has continued with recruitment and training through online platforms ongoing during the year. This year the Fund has seen an exponential increase in the rate of applications for the Fund's available roles reflecting a growing interest in the work of the Fund and the opportunities for career development within the region.

This was most notably recognised in our achieving Investors in People Gold in the Summer.

OUR VISION

"Contributing together to create sustainable futures for all"

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

Now, more than ever, there is a motivation across the public and our own member and employers' appetite to do more to address environmental and social issues, highlighted through global understanding of the pace and impact of climate change and through the awareness raised by Black Lives Matter which have both thrown a spot light on the actions all can take, including public bodies and employers, to do more to ensure equality, diversity and inclusion.

As we look forward to 2021 and consider our focus and priorities to 2026, we remain committed to ensuring our customers are educated, informed and engaged about their retirement income and have the opportunity to plan their retirement effectively while invoking confidence in our investment approach that aligns with their beliefs.

OUR PRIDE

P

Partnering for Success

We work with our partners, customers, peers and stakeholders to design, enhance and deliver services that meet their needs as well as supporting the wider LGPS and pension Industry to shape the environment in which we work.

Through partnerships we are able to deliver our investment beliefs and support development of sustainable futures.

R

Responsible Asset Owner, Employer and Local Community Partner

Through our Responsible Investment Framework we support active stewardship, engagement and seek positive change to protect and enhance the Fund's assets, ensuring they deliver the returns to support the payment of members' pension benefits.

As an employer we work with our people through our focus on Equality and Diversity working with our staff forum to support and promote inclusion and opportunity. Our staff forum promotes charitable causes raising funds to support local and national bodies with charities nominated by their colleagues.

I

Investing to Increase Capacity

As the world of pensions becomes ever more complex, we are committed to investing in resource which supports efficiency in processes able to respond to the increasing numbers and demand of our customer base. Enhancing usability of self-service platforms and providing opportunity for customers to seek support and information while investing in our people, continuing to develop knowledge and understanding which supports the service delivery and providing career opportunities for the next generation of leaders. Having the right people with the right skills, knowledge and behaviour is fundamental to the work of the Fund and we have implemented a people development strategy to ensure the ongoing success of our people, developing an organisation able to respond to its customers' needs.

D

Delivering Value Added Services

As a public organisation we are committed to ensuring value for money in all our offerings, from resources, services and managing investment cost through transparent reporting. Through annual benchmarking we continue to assess our delivery ensuring there is value in our work.

E

Engage to Improve Outcomes for Customers

For the Fund, how we act as shareholders and owners says a lot about how we expect our assets to perform and how we expect the companies in which we hold those assets to behave in their industries. As a leader across the LGPS, our role on national bodies ensures the voices of our customers are heard by those with responsibility for change, placing our members and employers at the centre of decisions which impact their futures. Our Customer Engagement Strategy encourages engagement and feedback from our customers which serves to inform our delivery enhancing overall outcomes.

CREATING SUSTAINABLE FUTURES

PEOPLE

SPACE
COLLABORATE

Our People

Our people are our greatest asset and it is through their development and commitment to our customers that the Fund achieves success.

Having the right people with the right skills, knowledge and behaviour is fundamental to the work of the Fund and we have developed our People development strategy to ensure our organisation is able to respond to its customers' needs.

Ensuring people feel confident and effective in their roles is fundamental to the strategy as this leads to improved efficiency and productivity. Our strategy aims to promote an inclusive environment where all employees are able to contribute to the success of the Fund, as well as gaining satisfaction and reward in achieving their own personal development goals.

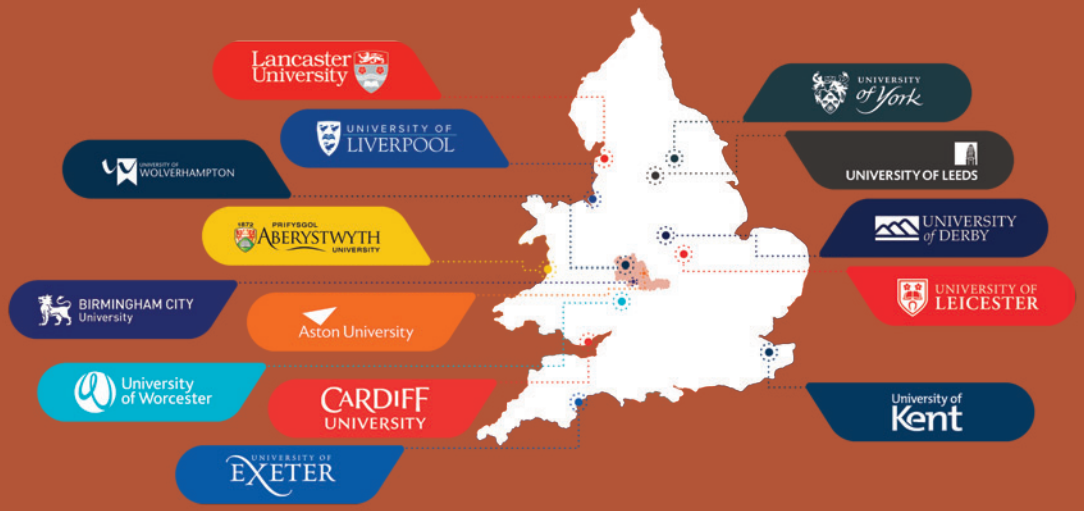
Through our "grow our own" we play an active role in providing opportunities to develop within the local community, the knowledge and skills which are relevant to the pension fund and financial service industry.

The success of our graduate program has been overwhelming with all cohorts going on to secure roles in their chosen career at the end of their program. This not only promotes the pension industry as a pathway to professional careers and therefore further raises awareness for retirement income planning, but also promotes our region as a place of opportunity bringing in talent from across the country and ensuring the region is a leader in growing employment opportunities across a range of sectors.

Our People in **2020**:

174 FTE
179 graduate program applications
16 internal promotions
30 new colleagues
69% undertaking qualification and training

INVESTORS IN PEOPLE | Gold



Creating sustainable futures for our People; developing employment opportunities in the West Midlands

CREATING SUSTAINABLE FUTURES

PEOPLE

SPACE
COLLABORATE

Inclusion and Opportunity

We are an equal opportunities employer offering inclusion in our success as we grow and succeed.

As a member of the Employers Network for Equality and Inclusion (ENEI) we aim to

- Ensure colleagues feel they are treated equally and fair regardless of age, disability, race, religion, gender and sexual orientation
- Develop our approach to being a more diverse and inclusive workforce which allows us to develop experiences and viewpoints to see issues in a different way and create solutions to business challenges
- Provide access to forums and training which support our understanding and awareness to be able to share ideas and initiatives between colleagues
- Support people to feel included, valued and accepted

As a Fund we are commited to ensuring change to drive increasing equality, diversity and inclusion (EDI) through evolving our working practices and recruitment strategy and ensuring those we work and invest with, drive to do the same. The Fund has established a dedicated programme of work to develop its internal and external support for EDI.

GENDER BALANCE OF THE FUND

Male	26%
Female	74%

ETHNICITY

White	72%
Asian	16%
Not Stated	6%
Mixed	3%
Black	3%

AGE

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

LENGTH OF SERVICE

Less than 2 years	57
2 years – 5 years	52
5 years – 10 years	10
More than 10 years	25
More than 20 years	30

Figures based on those employed in full time permanent positions at the Fund as at March 2021

Creating sustainable futures for our People; developing employment opportunities in the West Midlands

CREATING SUSTAINABLE FUTURES

PEOPLE
SPACE
COLLABORATE

Artist's impression of our future office space, Wolverhampton's i9 building

Our Environment

The Fund believes the environment it creates and uses plays a vital role in supporting its people, customers and stakeholders and how these interact, both in the West Midlands and the wider pensions industry and Local Government arena. The Local Government Pension Scheme continues to grow and experience significant change, creating opportunities for Funds to benefit from collaboration. With a central UK location and close proximity to multiple and major transport networks, the Fund premises provide a hub for training and collaboration and is a place where the Fund can set out and live to the standards it sets for others in ensuring buildings and technology are aligned to ambitions for a sustainable future.

As a Responsible Investor, employer and community partner, the Fund sets a high standard for properties in which it resides, invests and develops, working to ensure an increasing proportion of the portfolio meets, as a minimum the BREEAM rating of very good and an EPC rating of B.

Over 2021 the Fund is developing its own future space ensuring it provides an environment able to support flexible working, effective collaboration and delivers strong credentials to support in action on Climate Change.

The Fund's Responsible Investment Framework, goes further with themes on Responsible Financial Management and attention to Human Rights, including initiatives to support greater social equality and a just transition in response to climate change.

As we continue to challenge the action and pace of change in response to climate risk in our investment portfolio, the Fund has a nominated Green Champion to drive the Fund's own initiatives, such as recycling and reducing single use plastics.

Our premises, use and location provide an important role in instilling the confidence in the Fund as a leader within the industry and a source of information to assist in decision making at one of the most important stages in our members' lives.

£2bn Transitioned £2billion of equity holdings to sustainable & low carbon investment strategies

1/3 Reduced total equity carbon intensity by third relative to the benchmark

8% Increased investment in clean technology by 8% in last year

20% Reduced its weight of exposure to fossil fuel reserves by over 20% since 2019/20

Creating sustainable environments in which we work and invest

CREATING SUSTAINABLE FUTURES

PEOPLE
SPACE
COLLABORATE

The Pensions Regulator
Making workplace pensions work

RETIREMENT LIVING STANDARDS | PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Our Customers and Stakeholders

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

Working to ensure we are able to adapt and respond to continue to deliver a high quality and valued service that is responsive to the environment in which we work. Our core mission is to ensure that our members receive their pension benefits when they fall due, but more than that, to ensure our members are able to plan their retirement with access to information, guidance and support about the benefits they can receive and the options available to them. For our employers we seek to work in partnership aligned to mutual service delivery, to ensure they are able to fulfil their responsibilities to the Fund, are aware of their evolving pension liabilities and provide a valued service for their members.

We recognise the value in engagement with our partner organisations, be it other LGPS Funds, service providers or industry bodies and the need to continue to be alert and proactive to change. We engage early to inform debate and work in collaboration to achieve good outcomes for the Fund and wider LGPS.

Not more than five years ago, pensions were more often than not dismissed as something to think about at the end of working life, now the focus has shifted with renewed motivation to ensure pension funds work with individuals throughout their working life to provide an income in retirement which ensures a good standard of living.

Through the Be Pensions Smart campaign and developing member self-service toolkit, the Fund seeks to inform members of the Local Government Pension Scheme of their pension savings, options and to engage and support all in planning for retirement. Our objectives this year extend to focus more on raising awareness of risks to pension saving, supporting members on the potential pitfalls of fraud and scams.

We aim to tailor our information and engagement to life events. This proves the most effective way to engage and facilitate understanding and positive action.

We believe, societal influences also shape the level of interest individuals have with their pension provider and have seen an increase in interest from our members on how their pensions are invested and our programme of active stewardship.

Creating opportunity for our members to ensure a sustainable living in retirement income

FUTURE OUTLOOK

Horizon / Risk

Although some plans had to be put on hold during 2020, a number of key changes continued to shape the LGPS and the pensions industry with the enactment of regulatory change and the evolving demand for informed pension choices.

As we move into the next phase of change we continue to monitor these developments and prepare to respond effectively

It is now more important than ever to have the best possible understanding of the world around us and that we review, prioritise, scrutinise and adapt effectively. The Fund's risk management framework supports us in doing this with ongoing review and challenge through an effective assurance program.

We continue to ensure that

- Implications for risk are highlighted at the right levels within the fund
- We share best practices to establish a common understanding of risks across all levels with the fund
- Actions and controls are closely monitored to ensure mitigation of risks

It is through this approach that we have identified a number of key drivers that will shape our service delivery over the course of the next 1 – 5 years.

Through embedding a culture of

YOU (fund employees completing day-to-day activities and processes to achieve objectives, working with the Second Line of Defence to continually improve controls),

WE (Governance and oversight functions providing assurance over existing controls and working with the First Line to continually improve and strengthen controls),

US (Our achievements, independent assurance, accreditations and external assessments demonstrating the effectiveness of the Fund's controls),

The Fund has instilled the risk management as working practice across all service areas driven by the goals and ambitions of our Corporate Plan.

DRIVERS FOR CHANGE

Regulatory Change and Increased Oversight of Reporting

- **McCloud**
- **Good Governance**
- **Statutory Guidance**
- **Cyber Risk**

The pensions industry is constantly moving ensuring it is able to maintain appropriate standards of governance and information.

The Fund engages in potential change through its role on various national groups supporting the discussion on proposed change and responding to consultations on new regulation. The focus for the Fund is on ensuring it is able to report and support the change through flexing of its own approach and resource.

This year the Fund has adopted its independent Cyber Risk Strategy designed to ensure effective management of the evolving and continuously changing risk environment across the cyber world.

Identify – Protect – Respond

Supporting Members

- **Pension Dashboards**
- **Pension Scams**
- **Complexity in scheme rules**
- **Increased demand for self service**

Individuals are becoming much more engaged with their pensions through national campaigns and an evolving perspective of pension as being an income in retirement.

The Fund is supporting that engagement through input to the development of data standards to support the pension dashboards. Through our pledge to support and protect members from pension scams we have committed to warn members of the potential dangers of transferring out and to ensure appropriate advice has been received.

Ensuring further development of our pensions portal and member functionality will aid in navigating pension options and increase access to information.

Funding and Cost Management

- **Employer flexibilities**
- **Post Covid austerity**

Building on new LGPS regulations in September 2020, the Fund is further enhancing its approach to integrated risk management, including individual employer funding developments. Whether driven by exit, change in covenant or membership, the Fund is taking a proactive approach to engaging with employers on changes between formal triennial valuations, to aid in financial planning.

Investment Management

- **Stewardship**
- **Responsible Investment**
- **Pooling**

The Fund's investment strategy continues to evolve in response to the ever-changing investment and economic outlook. Our drive for return to support in meeting the cost of pension benefits is supported by governance arrangements which ensure active stewardship, engagement on key environmental, social and corporate governance issues and implementation through cost-effective investment vehicles.

Action to assess, monitor and manage the financial risks associated with Climate change will continue to progress, together with further integration of responsible investment beliefs into the day-today management of Fund investments.

Resourcing and Skills

- **Growing complexity in scheme rules**
- **Competition in the market**

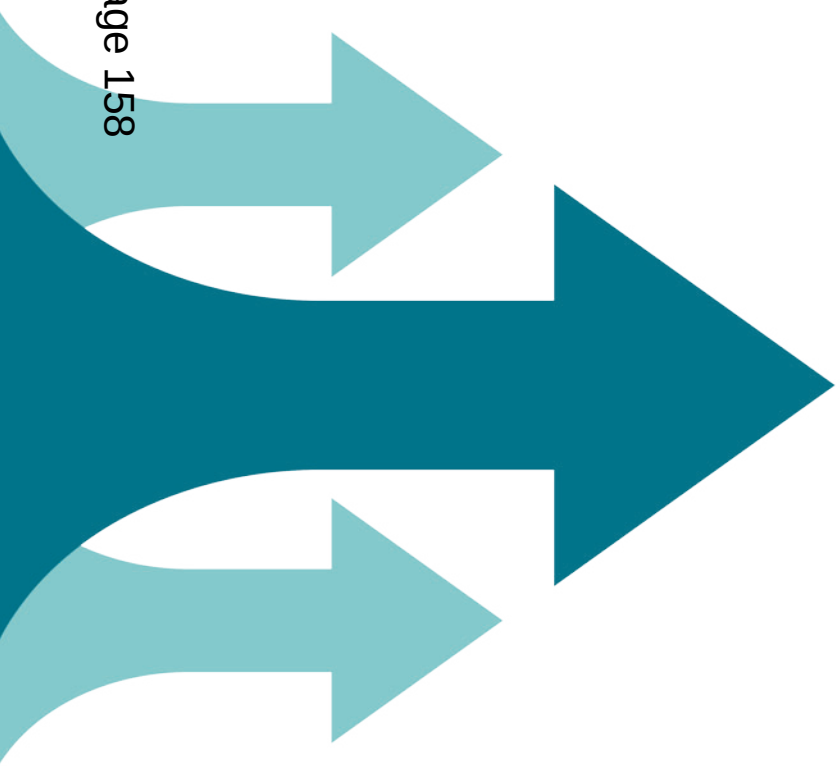
Our ability to support our customers depends on our people being equipped and trained to manage and deliver a service that is responsive to our customers' needs.

Change has been, and in the future, will continue to be, a consistent feature of the background against which the Fund delivers services for both its members and employers each year.

It is our goal to ensure that our people have the opportunity to develop with the changing environment in which we work, effecting flexible solutions to meet the changing demands of our customers and the way we deliver our business and services.

OUR GOALS AND AMBITIONS

Despite the events of 2020, the Fund has continued to grow. Our employee base continues to grow, both in numbers and skill, and we foresee growth areas in a number of our teams going forward both in terms of the **people** and the service offering. Our future **space** will support our ambition of becoming a regional hub for pensions knowledge, ensuring we continue to **collaborate** with our customers and stakeholders supporting their goals and ambitions as much as our own. These goals and ambitions have been identified as key in enabling the Fund to achieve its corporate priorities.



Outward Looking

Aware and evolving as the regulatory landscape and customer environment and expectations change

Through being aware of challenges and opportunities to collaborate on change we can recognise areas of alignment and potential conflict ensuring ongoing review of key strategy policy documents to ensure they respond to the changing environment in which we work. Over the next 1 – 5 years we will develop our policy on local investment working with partners to ensure opportunities align with our investment strategy and support the wider region.

Accessible Information and Support

Creating a space of opportunity for our members to feel educated, informed and enabled to take decisions about their retirement options

We will establish our future events programme, enabling both face to face and online interaction flexing our offering to the ask of our customers including the ongoing roll out of self service facilities building on the success of the initial launch of our employer hub in 2020.

We will continue to increase member awareness of retirement planning and scam risks through enhancing our information offering and ongoing review and development of long standing operational processes to drive and improve member data effecting efficiency in service delivery.

Responsible Asset Owner and Employer

Securing sustainable investment returns, influencing positive change locally and globally

Through our investment strategy we aim to meet the long term liabilities of the Fund through effective management and flexibility of assets, responsive to the changing markets in which we invest, acknowledging our fiduciary duty through the application of our Responsible Investment framework and the continued engagement and campaign on behalf of our members ensuring our stewardship of assets supports effective change in company behaviour.

As a member of ENEI we will increase actions to support equality, diversity and inclusion (EDI) within the Fund and the organisations we work with as well as building on the initial work to Champion Climate change initiatives within our own organisation.

Place of Opportunity

Engage our partners in the direction of the Fund and enhance our service delivery to effect long term flexibility in the services and support we offer

We will continue to build our in-house skills and expertise offering opportunity for customers to engage and inform their own understanding of pensions building knowledge to support understanding as well as offering a central region location to work with our peers and industry partners in shaping the LGPS. We will supporting our colleagues through the establishment of an agile employee working programme which works to support our future space as a hub for collaboration

People Development Champion

Launching and developing careers and developing talent

Through our People Development Framework, we will enhance our offering as an employer through forward thinking with our resource needs enabling us to stay ahead, ensuring we can recruit, develop and retain the right people who can deliver excellence for our members and stakeholders. To enhance our Diverse workforce with a culture of learning and development, providing an opportunity for everyone to develop current skills in their role and enhance career aspirations through role specific development programs and a matrix approach to service delivery.

Active Participant

Take an active role to support our partners across the industry, recognising our role as a leader in the industry and the opportunities to shape the LGPS

Through our roles on national bodies and our recognition as a leader in the LGPS we will take a proactive approach to engagement responding to national concerns and consultations ensuring stakeholder perspectives are represented on matters most relevant to them.

Informed Action

Enhance data, information and risk management tools to support Fund decision making and policy development

Through developing business intelligence tools we will shape future direction of the Fund through informed foresight and proactive risk identification shaping services and policy in response and in preparation for future change which will support our foresight planning for both service delivery and resource needs identifying opportunities to create efficiency in our processes and enhance monitoring of our performance.

Instilling Confidence in our Service Delivery through Ongoing Transparency

Provide assurance and instil stakeholder confidence through transparency of reporting delivering accountability on our actions demonstrating value add

We will continue to seek external review of our delivery and performance through both elective and statutory assessment participating in industry wide benchmarking activities to establish progress against key service and value measures.

We will develop new ways of measuring the effectiveness of our governance in response to national oversight and regulation which will support good decision making and management of the Fund.

OUR COMMITMENT

Stong Governance

Providing assurance on the services we deliver with effective decision making.

Customer Focused

Enabling, educating and supporting our customers on complex issues flexing our services to our customer's evolving needs.

Global Influence

Shaping the industry in which we operate, leading by example on key issues, including regulatory change, investment cost management, and responsible investment.

Delivering for local people

Enhancing our reach through developing our engagement model and supporting our communities through opportunity.

OUR RESOURCES

West Midlands Pension Fund

Investments
- Investment Strategy
- Responsible Investment
- Investment Pooling
- Asset Allocation
- Oversight of Management Arrangements
- Investment Partnerships

Finance
- Accounting
- Treasure
- Technical Accounting
- Budget Management

Pension Services
- Customer Engagement
- Funding and Risk management
- Employer Onboarding and Coaching
- Communications and Events

Operations
- Benefit Operations (inc.payroll)
- Systems
- Technical
- Programme and Product Delivery

Governance and Corporate Services
- Compliance and Assurance
- Data Management
- People Services
- Governance
- Corporate Services

Finance – Operating Budget

Budget 2020/2021

Total Operating Budget
£96.1 million

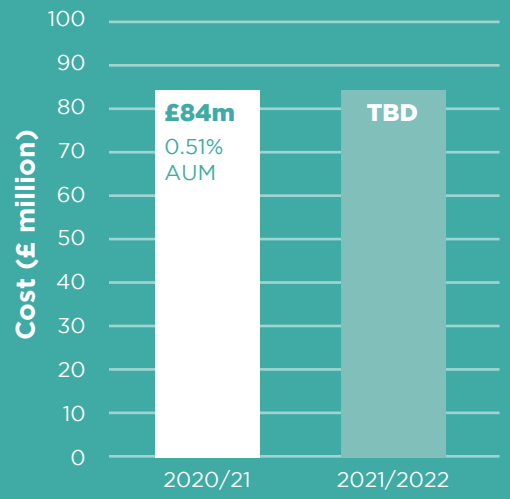
- People
- Support Services
- Equipment

Budget 2021/2022

Total Operating Budget
£102 million

- Advisors
- Investment Management Costs

Investment Management Costs



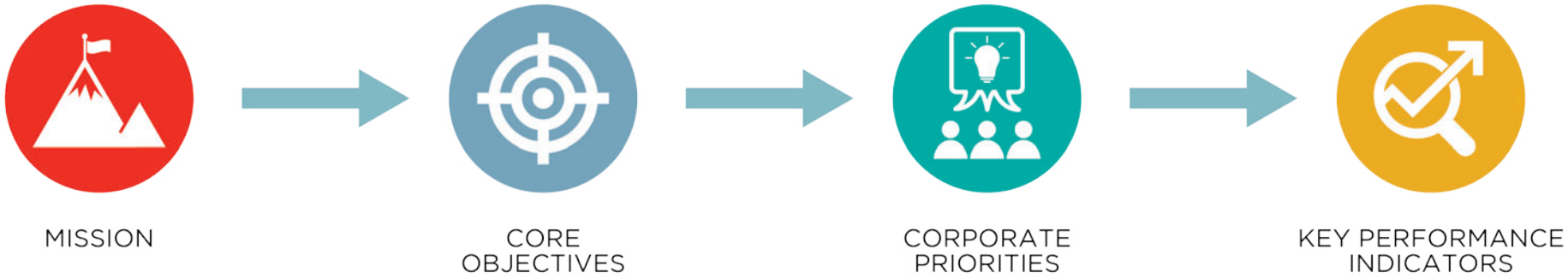
Admin Cost Per Member:

2020/21	**£34.91**
2021/22	**£35.83**

Assets Under Management:

AUM 2019/20 as at 31 March 2022	**£15.2bn**
AUM 2020/21 as at 31 December 2020	**£18.7bn**

CORPORATE PERFORMANCE FRAMEWORK



Councillor Milkinder Jaspal
Chair – Pensions Committee

Councillor Clare Simm
Vice Chair – Pensions Committee

Rachel Brothwood
Director of Pensions

Tom Davies
Assistant Director – Investments Strategy

Darshan Singh
Head of Finance

Rachel Howe
Head of Governance and Corporate Services

Simon Taylor
Assistant Director – Pensions

Amy Regler
Head of Operations

West Midlands Pension Fund

wmpfonline.com

Agenda Item No: 12

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 2021

Report Title	Cyber Security	
Originating service	Pension Services	
Accountable employee	Amy Regler Tel Email	Head of Operations 01902 55 5976 Amy.Regler@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Board is asked to note:

1. The work undertaken by the Fund to further develop its Cyber Security Framework 2020/2021.

1.0 Purpose

1.1 To provide Board with an overview of the work undertaken by the Fund to further develop its Cyber Security Framework.

2.0 Background

2.1 Cybercrime is rapidly evolving and is considered a serious risk to any type of organisation. In 2019, 42% of all crime was cybercrime and fraud, post COVID this figure is now over 50%. Since the introduction of GDPR, 159 data breaches were reported to the Information Commissioners Office, with 27% related to cybercrime, including phishing attacks, security breaches and unauthorised access.

2.2 As one of the largest Local Government Pension Funds, the Fund holds a large amount of personal data and assets, large volumes of employers with data and money flowing between; which can make it a target for fraudsters and criminals. Therefore, the Fund needs to take steps to protect our members and assets accordingly, which includes protecting them against 'cyber risk'.

2.3 The Fund's information technology infrastructure is hosted by the City of Wolverhampton Council (CWC) who provide support to the Fund through service level agreement.

2.4 In 2020 the Fund undertook a review of the programme of activities and framework of policies relating to Cyber Security to develop its own Strategy and annual programme of work. As part of its resilience and review of current processes and procedures the Fund has reviewed and followed wider guidance on cyber security for pension Funds, which includes, but is not limited to:

- TPR's Cyber Security principles for pension schemes
- PASA Cyber Security Guidance
- The National Cyber Security Centre 10 steps to cyber security
- National Cyber Security Centre Cyber Essentials

3.0 Cyber Security Strategy

3.1 The Fund's strategy is designed to ensure effective management of the rapidly evolving and continuously changing risk. The Fund's cyber security strategy outlines our guidelines and provisions for preserving the security of our data and technology infrastructure. Cybercrime continues to increase in sophistication and the more reliance is placed on technology to collect, store and manage information, the more vulnerable the Fund will become to severe security breaches.

3.2 This strategy applies to all the Fund's employees, contractors and anyone else who may have any type of access to Fund's systems, software and hardware. In addition, it applies to all information held or owned by the Fund, any Information, Communication or Technology (ICT) equipment and infrastructure used, and the physical environment in which the information and/or supporting ICT is used. It also links into a number of existing City of Wolverhampton Council (CWC, the Council) policies and does not replace these documents for example, acceptable use of ICT Assets and Social Media. It also forms part of the Fund's Data Management Framework and should be read in conjunction with the associated policies, for example, Data Protection Policy.

3.3 The Fund has a threefold approach to managing cyber security and the risk it poses to the Fund. This approach focusses on quantifying the risk, ensuring effective controls are in place to protect the Fund and; ensuring the Fund can respond to a cyber incident if it occurs. Furthermore, it ensures there is an ongoing review of each of the key stages.

3.4 Alongside the Strategy, the Fund has developed an annual programme of cyber security activities, which includes, but is not limited to;

Identify – Quantify and measure the exposure to risk

- Identification and regular monitoring of the key areas of cyber risk the Fund is exposed to, including data, assets and other areas

Protect – Safeguard the Fund

- Ensuring the Fund has key policies and procedures, for example, acceptable use of devices, email and internet etc.
- Annual assurance questionnaires issued to all relevant third party providers
- Annual training for Pension Committee, Pension Board Members and staff
- External security testing on online systems, for example, Employer and Member Online facilities
- Quarterly monitoring of protective activities for example, vulnerability testing

Respond – Ability to react and Recover if an incident occurs

- Development and continual monitoring and testing of Business Continuity and Disaster Recovery Plans.

4.0 CWC Programme of activity 2020/21

4.1 A programme of activity across the year is undertaken and includes the application of key controls to protect the Fund against cyber risk, these are monitored and reviewed by the Fund at the quarterly meetings with key individuals from the Council's ICTS security team. As the main supplier for ICTS services and support, the Fund receives an annual assurance report of the activity undertaken, which includes the outcomes of

the various infrastructure testing, highlighting any areas for improvement and the steps being taken.

4.2 CWC has a robust cyber security framework which has been externally reviewed and they have successfully achieved the Public Services Network (PSN) compliance certificate for its 9th successive year and in 2019. CWC have also achieved the Cyber Essentials Plus accreditation, which is a Government approved security standard intended for companies to demonstrate that they have a good level of IT security in place. This is an annual requirement in order to maintain accreditation. This testing is similar to the PSN ITHC requirement in that both external and internal testing is carried out, along with analysis of client devices. The latest testing was completed in July 2020.

5.0 External review

5.1 As part of the programme of activity and continual development, the Fund has undertaken independent assessments of its management of Cyber Risk against industry standards and best practice. In 2020/21, internal audit undertook a review of the controls and processes in place against the Pension Regulator's key principles and determined a satisfactory outcome.

5.2 In addition, in early 2021 the Fund has engaged with AON, a third party pensions specialist consultancy, to partake in their Cyber Scorecard, which is a benchmarking exercise comparing the management of cyber risk across local government pension funds. AON are currently collating responses from pension funds and a report of the findings will be shared and discussed with the Pensions Board once available.

6.0 Financial implications

6.1 The report contains no direct financial implications.

7.0 Legal implications

7.1 The report contains no direct legal implications.

8.0 Equalities implications

8.1 The report contains no direct equalities implications.

9.0 Environmental implications

9.1 The report contains no direct environmental implications.

10.0 Human resources implications

10.1 This report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 The report contains no direct corporate landlord implications.

12.0 Schedule of background papers

12.1 None.

13.0 Schedule of appendices

13.1 None.

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Agenda Item No: 13

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 2021

Report Title	Funding Strategy Statement Review 2021	
Originating service	Pension Services	
Accountable employee	Simon Taylor Tel Email	Assistant Director, Pensions 01902 55 4276 Simon.taylor2@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Pensions Board is asked to note:

1. 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.

1.0 Purpose

1.1 To provide Board 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 (ISS) or overarching legislation.

2.2 As reported to Board on 26 January 2021, as part of the Regulatory Update paper, 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 (A) 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 the 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 Board to note, 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 Board to note, 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 opened consultation with all participating employers on 12 April 2021 for a period of 6 weeks, closing on 21 May 2021.

7.3 The consultation proposal is for the revised FSS to be effective from 1 June 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 is hosting briefing sessions late April/early May to further explain the proposed changes and provide employers the opportunities to discuss and raise any queries, noting this is a new element of LGPS Regulation and Fund policy, with scope to refine as practice evolves.

7.6 The Board are invited to provide comment in response to the proposed changes as part of the consultation. All responses will be reviewed, and any amendments considered by the Director of Pensions in consultation with the Chair and/or Vice Chair of Pensions Committee, ahead of issued of the final FSS effective from 1 June 2021.

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 facilitate funding flexibilities, 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 2021 Funding Strategy Statement

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.

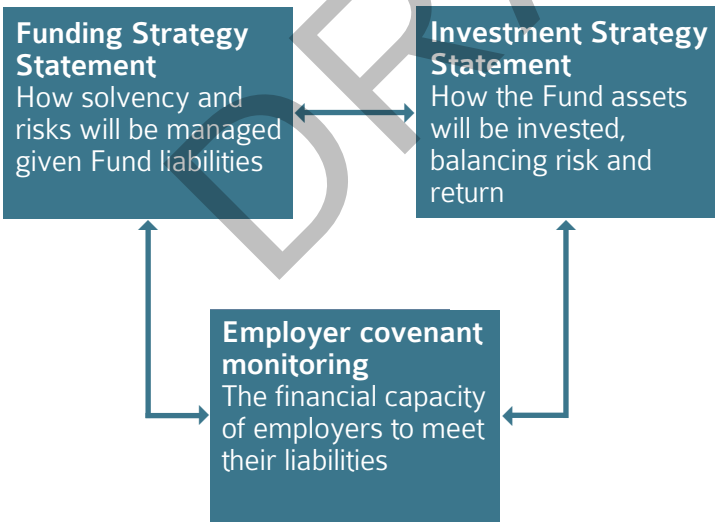
This FSS was initially developed for the West Midlands Pension Fund in conjunction with the 2019 actuarial valuation and with further revision following the introduction of 'Employer Flexibility' legislation on 23 September 2020. This latest FSS is effective from (June 2021).

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.

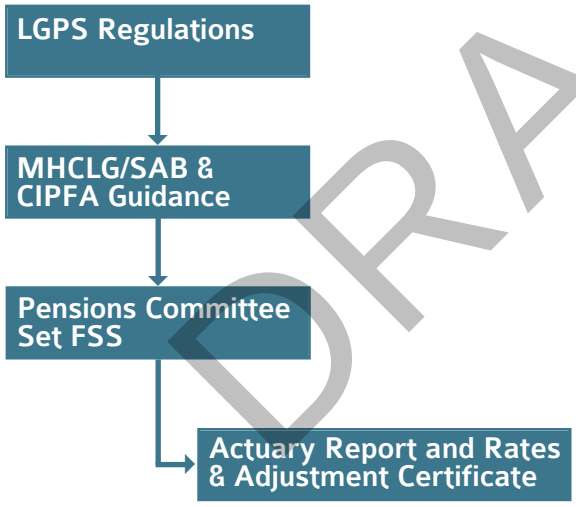
2.2 The aims of the Fund are to:

- 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.

2021 FSS

- 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 triennial valuation.

McCloud Provisions

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

Financial Assumptions

- **Investment Return (Discount Rate)**

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

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

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

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

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

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

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

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

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

Demographic Assumptions

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

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

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

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

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

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

Comparison of Key Financial Assumptions – 2019 and 2016 Actuarial Valuations

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

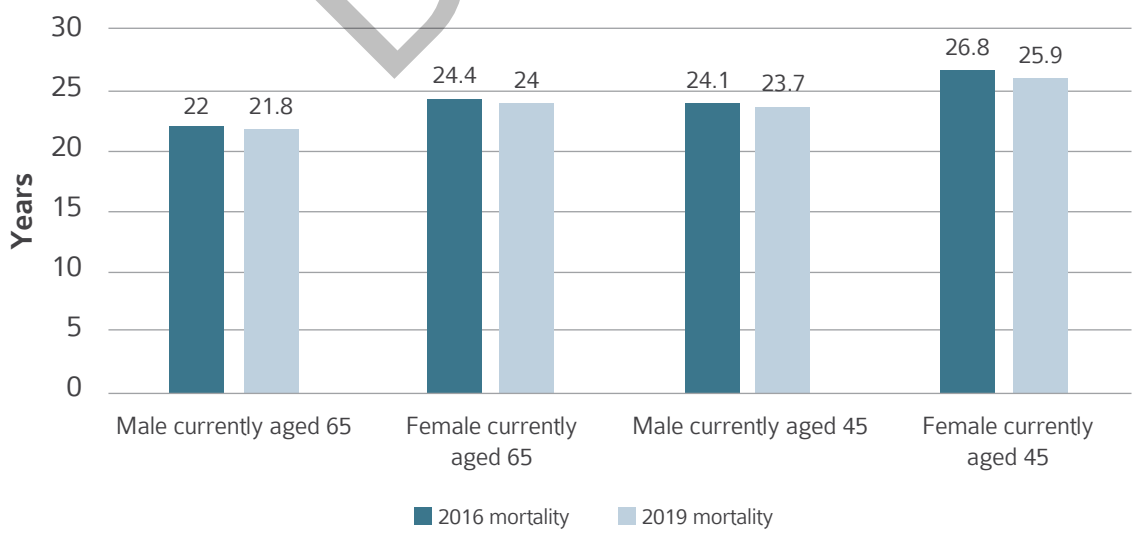
Mortality Assumptions	2019	2016
Pre-retirement mortality - base table	GAD 2016 tables with a rating of 115% for males and 125% for females.	GAD 2013 tables with a rating of 120% for males and 135% for females.
Post-retirement mortality - base table	CMI self-administered pension schemes (SAPS) tables with scheme-specific adjustments as appropriate following analysis by Barnett Waddingham's longevity table.	

Type	Base table	Adjustments (M/F)	Type	Base table	Adjustments (M/F)
Normal health	S3PA Heavy	85%/95%	Normal health	S2PA	110%/105%
Ill health	S3PA Heavy	85%/95%	Ill health	S2PA	110%/105%
Dependants	S3DMA/ S3DFA	110%/125%	Dependants	S2PMA/ S2DFA	140%/110%

Allowances for improvements in life expectancy	2018 CMI model with a long-term rate of improvement of 1.5% p.a., a smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.	2015 CMI model with a long-term rate of improvement of 1.5% p.a.

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

Life Expectancy



Other Demographic Assumptions

Partner age difference	Males are three years older than females
Proportion married	75% of males and 70% of females have an eligible dependant at retirement or early death
Allowance for withdrawals	GAD 2016 table
Allowance for cash commutation	Members will take an additional 50% of the remaining maximum tax-free cash available after members have taken the standard 3/80ths cash sum for pre-April 2008 service
Allowance for early retirements (non-ill-health)	Each member retires at their weighted average 'tranche retirement age', i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits
Allowance for 50:50 membership	We have assumed that existing members will continue to participate in their current section

Management of Funding Deficits and Surpluses

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

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

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

ii) In general, a maximum deficit recovery period of 17 years will apply, reduced from 22 years in 2013 and 20 years in 2016. Employers can elect a shorter period if they prefer and all contributions paid will be allocated to their individual asset share on future funding review. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Employer Categorisation below).

iii) Where significant increases in employer contributions were required from April 2020, and an employer provided evidence to the Fund that these were not affordable, the increase from the contributions payable in the year 2019/20 may be implemented in steps, at the discretion of the Administering Authority and as agreed with individual employers prior to April 2020, noting that rates will need to be increased to cover the amount due to the Fund to cover the cost of benefits accrual over the inter-valuation period to 2022/23

iv) In the event of the funding level showing a 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 (gilts) 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

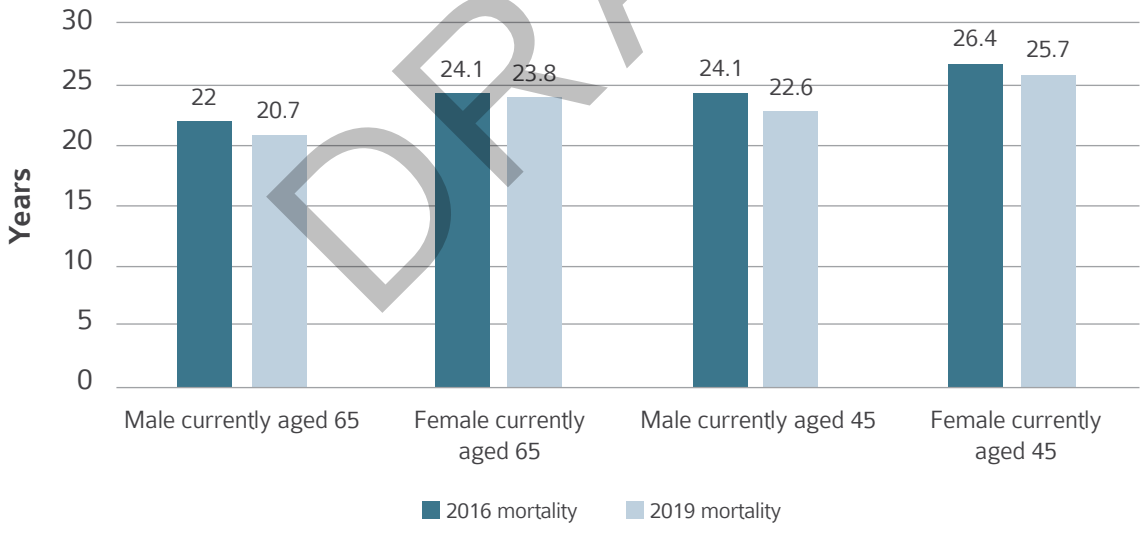
The Fund undertook a detailed assessment of WMTL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood and scale of employer default was used in the context of the funding strategy review.

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

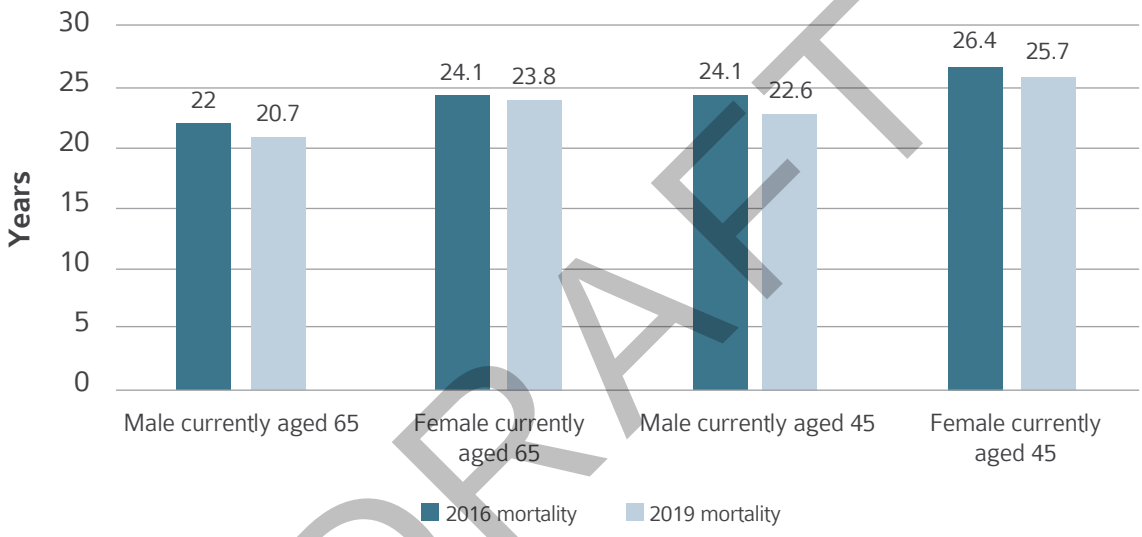
The Fund undertook a detailed assessment of PBL to include a review of the UK bus market and the guarantee arrangements currently in place. The outcome of this assessment and the potential likelihood x scale of employer default was used in the context of the funding strategy review.

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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Agenda Item No: 14

CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

27 April 2021

Report title	Investment Governance	
Originating service	Pension Services	
Accountable employee	Tom Davies Tel Email	Assistant Director, Investment Strategy 01902 55 8867 Tom.davies@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Pensions Board is asked to note:

1. The annual review of WMPF's Investment Strategy Statement (ISS), with only minor changes (Appendix A).
2. The Funds Responsible Investment Framework March 2021 (Appendix B).
3. The update on investment governance matters including those in relation to responsible investment and investment pooling.

1.0 Purpose and background

1.1 This report provides an update on investment related matters, including the approval by the Pensions Committee on 24 March 2021 of the Fund's Investment Strategy Statement and the Responsible Investment Framework, an update on responsible investment activities, together with the ongoing development of LGPS Central Investment Pool.

1.2 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active Responsible Investment Framework. There are three main pillars to the framework: **selection** (of assets), **stewardship** (of assets), and **transparency & disclosure**. The Fund's Responsible Investment Framework incorporates four targeted engagement themes including climate change, for which the Fund has developed a policy framework and risk management strategy.

1.3 LGPS Central Ltd ("the Company") is a jointly owned investment management company established by West Midlands Pension Fund and seven Partner Funds to deliver investment pooling for the LGPS Central pool in accordance with the criteria laid down by the Secretary of State.

1.4 Investment products and services to Partner Funds are being developed, supported and overseen by the governance structures established within the Company and across the wider investment pool. The Shareholder Forum and Joint Committee each meet at least twice annually, with the Shareholder Forum considering shareholder related matters such as the Company's strategic business plan, annual budget and annual report and accounts. The Joint Committee is focused very much on client deliverables of investment pooling, together with governance and oversight of pooling arrangements.

2.0 Investment Pooling Update – LGPS Central Ltd

2.1 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).

2.2 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 to launch 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.

3.0 Investment Strategy Statement (ISS) annual review

3.1 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.

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

3.3 The Fund completed a full review of its investment strategy over 2019/20 resulting in significant changes to the Funds SIAB being approved in March 2020. Implementation of these strategy changes are underway.

3.4 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 2019/20 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".

3.5 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.

3.6 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.

3.7 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).

3.8 The updated ISS 2021, incorporating the revisions and clarifications above was approved by the Pensions Committee on 24 March 2021 and is set out in Appendix A for the Board to note.

4.0 Responsible Investment Framework 2020-2023

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 ISS, 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 B 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 Board are invited to note the 2021 Framework with these additions.

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

4.6 The Fund's engagement activity is monitored and reported to the Pensions Committee on a quarterly basis. Engagement activity includes a number of direct company engagements, on a range of themes, voting activity and working in partnership with other institutional investors to consider shareholder resolutions. Activity and progress are included in published reports from LGPS Central Limited and the Local Authority Pension Fund Forum (LAPFF).

4.7 The Fund has been a signatory of the UK Stewardship Code ('the Code') since its inception in 2012. As previously reported, the Code has been updated and came into effect from 1 January 2020. The Code represents a new best practice standard for both asset owners and asset managers alike. The new guidelines require that Funds who want to remain or become signatories of the Code must publish a Stewardship Report, demonstrating compliance with the 12 principles of the Code by 31 March 2021. The Fund will be working in conjunction with LGSPC Ltd to update the Fund's current statement on compliance with the Code during the first quarter of 2021/22. The Code will also be used in conjunction with

forthcoming guidance to be issued by the Scheme Advisory Board, as a basis for reviewing and strengthening the Fund's approach to responsible investment activity.

5.0 LGPS Central Investment Pool Governance

5.1 As previously reported to the Board, the governance arrangements for the LGPS Central pool include a Shareholder Forum (as the group of "owner" representatives) and the Joint Committee (focused on investment matters and client-side). The Shareholder Forum meets ahead of Company meetings (General and AGM) held twice per year. Meetings on 10 February were held via Microsoft Teams with representatives of all Central Pool Authorities and the Company present.

5.2 At the General Meeting Shareholders received an update on the following items:

- The Board's independent external evaluation exercise, three years into the development of the Company
- Company operations and resilience in response to COVID-19
- Prior year activities and performance review
- Approval of the 2021 budget and business plan

5.3 The Company held its annual Stakeholder Day on 19 March 2021, with good attendance and feedback on the day. Attendees to the online event were presented with an update on investment markets, debate on topical responsible investment matters and engaged in a panel discussion with the Board.

5.4 The next meeting of the Joint Committee has been confirmed for 18 June 2021. Company representatives are provisionally lined up to provide an update to the West Midlands Pensions Committee at its meeting towards the end of June.

6.0 Financial implications

6.1 There are no direct financial implications.

7.0 Legal implications

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

8.2 MHCLG issued updated draft statutory guidance relating to investment pooling for informal consultation in January 2019. This was to update and replace the original statutory guidance issued in 2015. An updated and broader formal consultation on changes to LGPS investment regulations is now expected to be issued early in 2021 and the Fund will respond to any consultation as required.

9.0 Equalities implications

9.1 There are no direct equalities implications.

10.0 Environmental implications

10.1 There are no direct environmental implications.

11.0 Human resources implications

11.1 There are no direct human resources implications.

12.0 Corporate landlord implications

12.1 There are no direct corporate landlord implications.

13.0 Schedule of background papers

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

14.0 Schedule of appendices

14.1 Appendix A – WMPF Investment Strategy Statement

14.2 Appendix B – WMPF Responsible Investment Framework March 2021

INVESTMENT STRATEGY STATEMENT
MARCH 2021

West Midlands Pension Fund

CONTENTS

1 INTRODUCTION

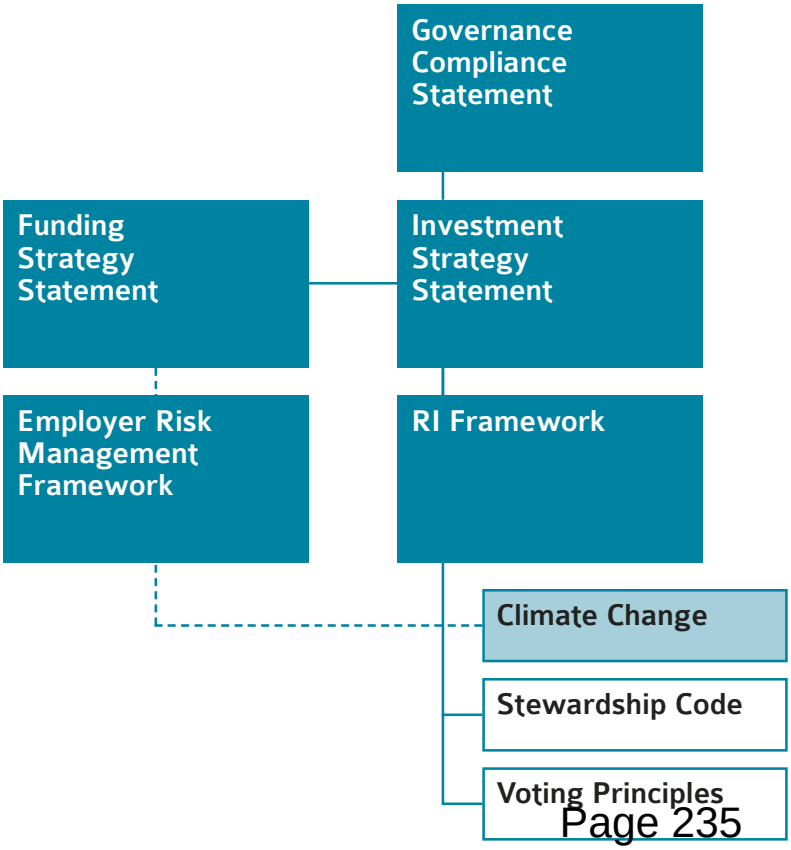
Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the West Midlands Pension Fund (the Fund) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. In preparing the ISS, the Pensions Committee has consulted with such persons as it considered appropriate. This statement updates and replaces the March 2020 ISS for both the WMPF main fund and the previously separate West Midlands Integrated Transport Authority Pension Fund (WMITAPF) Investment Strategy Statements.This statement was approved by Pensions Committee on 24 March 2021.

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

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

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

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



Investment Governance Framework

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

The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises representatives from the seven district councils and three local trade unions. The Fund has a statutory Local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty.

The Investment Advisory Panel includes two external advisers alongside the Director of Pensions, Assistant Director and Head of Investments. Neither the Local Pensions Board nor the Investment Advisory Panel have any decision-making powers. Roles and responsibilities are set out in more detail in Appendix A.

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

ISS Review

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

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

In conjunction with the merger, former employers of the WMITA pension fund now participate in the main West Midlands Pension Fund with associated assets and liabilities transferred to two separate admission body funds (ABF). For the purposes of the 2021 Investment Strategy Statement (and thereafter) the associated investment strategy statements for the new separate ABFs are included as appendices to this ISS (appendices D and E).

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

2 PURPOSE OF THE ISS

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

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

The purpose of the ISS is:

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

3 INVESTMENT OBJECTIVES

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

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

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

4 INVESTMENT BELIEFS

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

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

5 IDENTIFICATION AND MANAGEMENT OF RISKS

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

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

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

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

6 INVESTMENT STRATEGY

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

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

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

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

7 DAY-TO-DAY MANAGEMENT OF THE ASSETS

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

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

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

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

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

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

Oversight of performance is the responsibility of the IIC.

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

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

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

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

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

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

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

8 DAY-TO-DAY CUSTODY OF THE ASSETS

The Fund invests a significant proportion of its assets in third party investments schemes, including through LGPSC Central. Separately, for certain directly invested assets assets the Fund has appointed a custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

9 SECURITIES LENDING

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

10 INVESTMENT POOLING

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

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

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

11 RESPONSIBLE INVESTMENT

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

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

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

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

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

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Engagement Versus Exclusion
Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance or financially material RI issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing their RI approach.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. The Fund will continue to monitor the success of both its individual but also collective engagement with companies.

Voting
Where practical, the Fund aims to vote in every single market in which it invests in alignment with corporate governance best practice guidelines. In the interests of sending a consistent signal to investee companies, the Fund has decided to use a third- party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers.

12 CLIMATE CHANGE

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

13 COMPLIANCE WITH THIS STATEMENT

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

14 COMPLIANCE WITH MYNERS

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

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

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

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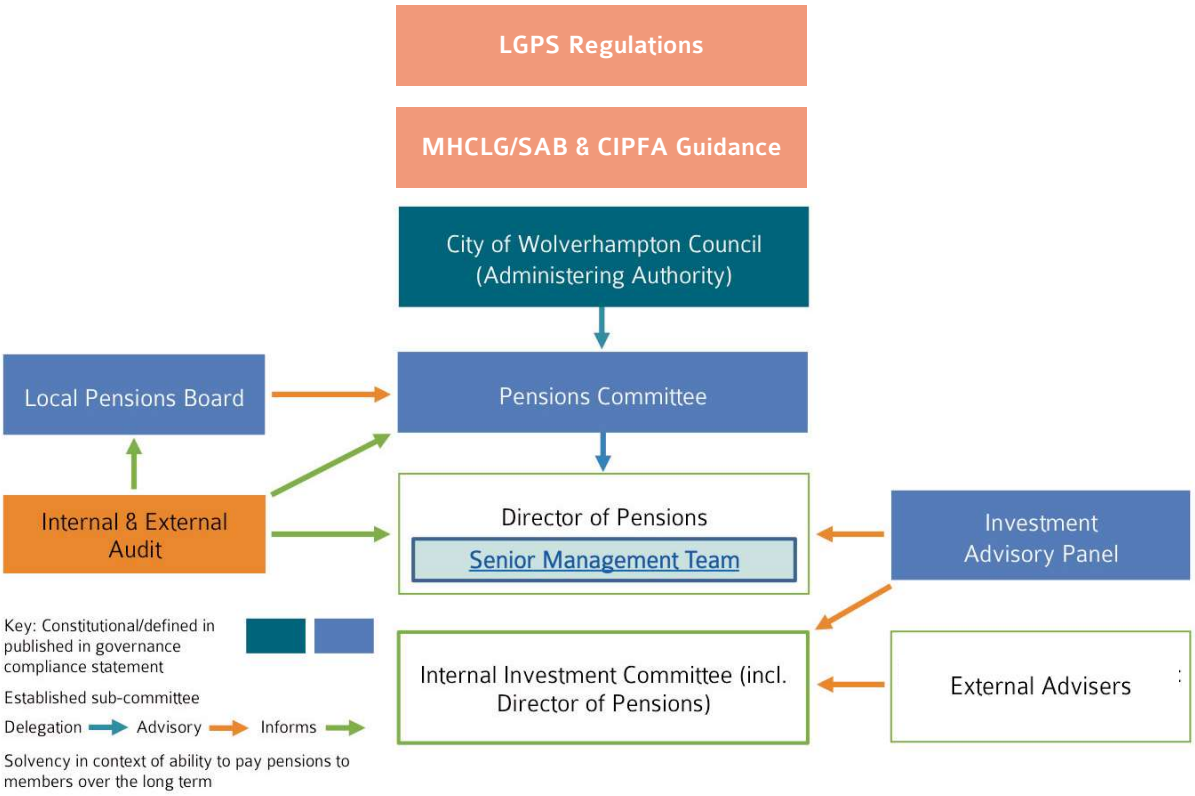
LIST OF APPENDICES

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

APPENDIX A: ROLES AND RESPONSIBILITIES

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



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

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

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

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

The key duties in discharging this role are:

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

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

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

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

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with statutory duties.

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

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

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

Medium-term asset allocation March 2021	Target %	Total %	Range %
Growth		**50.00**	**40-60**
Liquid growth		**42.0**	
Developed market equities	30.0		
Emerging market equities	12.0		
Illiquid growth		**8.0**	
Private equity	6.0		
Special opportunities	2.0		
Income		**38.00**	**30-50**
Liquid income		**14.0**	
Multi-asset credit	5.5		
Corporate bonds	4.0		
Emerging market debt	4.5		
Illiquid income		**24.0**	
Infrastructure	9.0		
Property	9.0		
Diversified private credit	6.0		
Stabilising and low risk		**12.0**	**5-20**
Stabilising		**7.0**	
Government bonds	2.0		
Index-linked bonds	3.0		
Cash	2.0		
Stabilising low risk		**5.0**	
Index-linked bonds	1.0		
Corporate bonds	2.0		
Multi-asset credit	1.0		
Private credit (lower risk)	1.0		
Total	**100.0**		

APPENDIX C: STATEMENT OF INVESTMENT BELIEFS

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

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

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

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

Financial market beliefs

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

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

Governance and organisational beliefs

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

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

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

Investment Strategy Beliefs

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

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

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

Responsible investment beliefs

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

- Effective management of financially material ESG risks including climate change risks should support the Fund's requirement to protect and optimise returns over the long term
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.
- Responsible Investment should be integrated into the investment process
- The Fund will manage responsible investment factors through engagement rather than exclusions.
- The Fund may take into account non-financial factors when making investment decisions, provided that it is able to demonstrate no significant financial detriment from doing so
- The Fund believes working collaboratively with other investors will deliver improvements to the way in which companies are managed and the provides the opportunity to influence wider policy which could impact on the long term returns to the Fund

Climate change beliefs

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

- The Fund believes there is overwhelming evidence to support the fact that climate change is impacting on the environment and that this will have longer term consequences for the Fund's financial returns if not managed.
- Climate change has the potential to impact the funding level of the pension fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy

- We believe that a transition to a low carbon economy is essential and that carefully designed and targeted government and company policies can ensure a just transition for workers and communities, with substantial economic and social benefits. In addition, public finance will be important as a cross cutting mechanism to invest in human capital and inclusive growth
- The Fund will collaborate with other investors to campaign for positive changes to policy both nationally and at a company level to bring about change aligned to the Paris accord of 1.5 to 2.0 degrees scenarios
- The Fund will adopt a focused climate change policy which will be monitored and measured to ensure that the Fund is delivering against policy targets set within its climate change policy
- In order to assess progress for the Fund towards a lower carbon economy it is essential for the Fund to measure its climate risk exposure at regular intervals

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

WMTL medium term asset allocation March 2021	Target %	Range %
Return seeking (equities)	16.0	14-18
Alternative credit	48.0	42-54
Stabilising gilts & bonds (including LDI)	36.0	32-40
Total	**100.0**	

The above excludes the value of the buy-in policy held to support meet a portion of the pensioner liabilities.

WMTL target hedge ratios	
Interest rates	60%
Inflation	40%
Total	**100.0**

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

PBL medium term asset allocation March 2021	Target %	Range %
Return seeking (equities)	15.0	10-20
Alternative credit	26.0	20-35
Stabilising gilts & bonds (including LDI)	58.5	50-70
Cash	0.5	0-2
Total	**100.0**	

West Midlands Pension Fund
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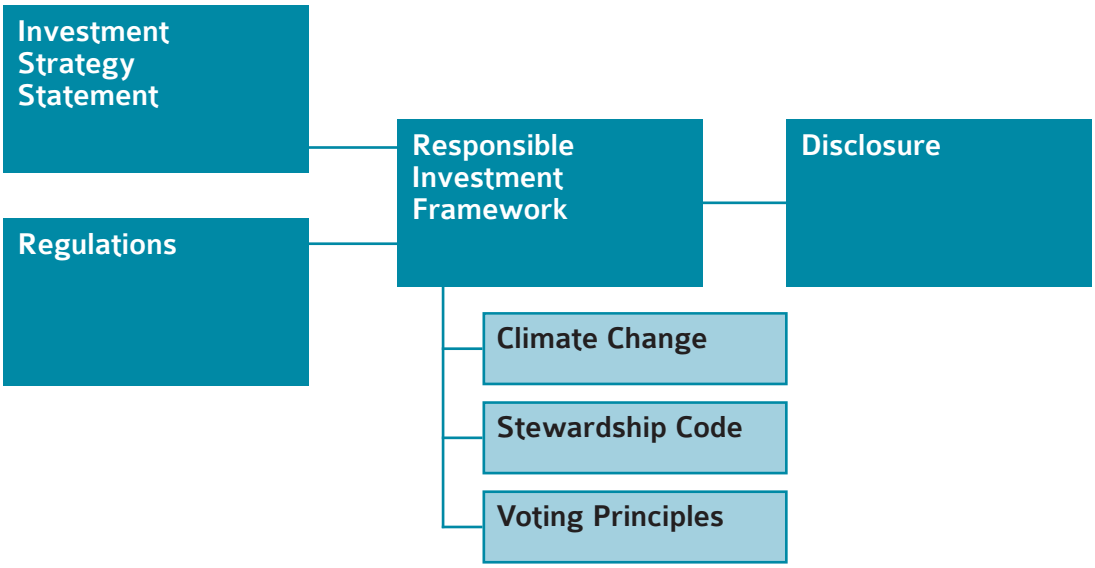
RESPONSIBLE INVESTMENT FRAMEWORK
MARCH 2021

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.

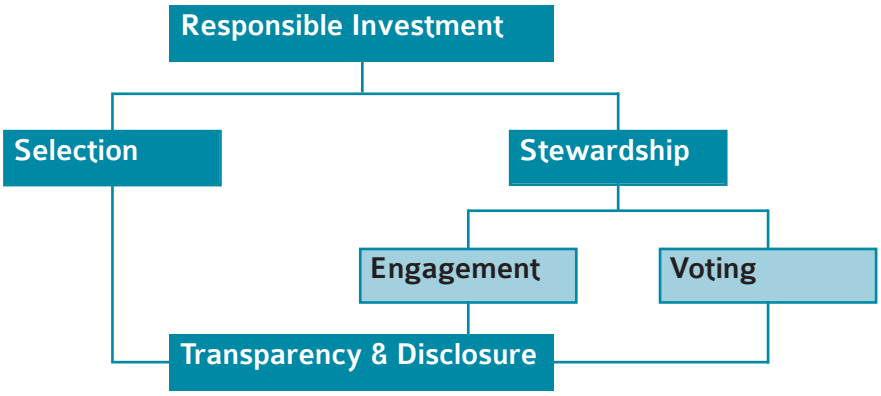
Climate Change

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".

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