

Attendance

Members of the Pensions Committee

Cllr Milkinderpal Jaspal (Chair)
Cllr Paul Appleby
Cllr Craig Collingswood
Cllr Carol Hyatt
Cllr Phil Page
Cllr Andrew Randle
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Paul Sweet

Trade Union observers

Malcolm Cantello (Unison)
Martin Clift (Unite)
Ian Smith (Unite)

Employees

Rachel Brothwood	Executive Director of Pensions - West Midlands Pension Fund
Simon Taylor	Assistant Director of Pensions
Rachel Howe	Head of Governance, Risk and Assurance - West Midlands Pension Fund
Amanda MacDonald	Audit Business Partner
Peter Farrow	Head of Audit
Amy Regler	Head of Operations
Chris Manning	Head of Finance
Laura Parker-Marsden	Governance Support Officer
Hayley Reid	Regulatory Governance Manager
Shiventa Sivanesan	Assistant Director, Investment Management and Stewardship
Holly Slater	Governance Officer
Fabrica Hastings	Democratic Services Officer

Part 1 – items open to the press and public

Item No. *Title*

- 1 **Apologies for absence (if any)**
Apologies were received from Councillor Bally Singh, Councillor Michael Gough and Councillor Angus Lees.

It was noted that the meeting was inquorate, due to there being no district representatives present at the meeting. It was agreed that the meeting would continue on an informal basis and acknowledged that any decisions made would be ratified by the Chair using the Urgent Decision Process.

The Chair requested that it was noted within the minutes that Local Authority appointment panels should ensure district members have the capacity to attend Pensions Committee meetings prior to making Committee appointments.

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

There were no declarations of interest.

3 **Minutes of the previous meeting**

That the minutes of the inquorate meeting held on 14 December 2022 be approved as a correct record.

4 **Matters arising**

There were no matters arising.

5 **Funding Strategy Statement Review**

Simon Taylor, Assistant Director – Pensions, presented the report providing an update on the finalisation of the 2022 actuarial valuation including the Funding Strategy Statement (FSS) and the Asset Share Policy, finalised following employer consultation, also noting the updated Employer Risk Management Framework.

The Committee were advised that a summary of engagement and consultation with employers was included in section three of the report. It was noted that whilst funding outcomes had generally been favourable in comparison to the 2019 valuation, affordability concerns prevailed for a number of employers. It was also noted that the Fund was continuing to work closely with a number of employers to implement funding mechanisms in order to mitigate the risk of contribution default and that the Fund's cessation policy was also under review and would be finalised for consultation over the coming months.

In response to a question raised by Cllr Hyatt with regards to the frequency of reporting the results of covenant reviews to the Pensions Committee, the Assistant Director – Pensions advised that reporting to the Committee took place on an exceptions basis, with an overarching report on the assessment of risk, monitoring and management in line with the Framework taken to Committee on at least an annual basis.

Resolved for ratification by urgent decision:

1. The 2023 Funding Strategy.
2. The 2023 Asset Share Policy.

Resolved:

3. That the consultation undertaken in relation to the 2022 actuarial valuation and the associated Funding Strategy Statement be noted.
4. That the progress made towards finalising the valuation, including employer engagement, and planned delivery of the Fund actuary's valuation report and rate and adjustments certificate by the statutory deadline of 31 March 2023, be noted.
5. That the updated Employer Risk Management Framework be noted.

6 **Investment Strategy Statement**

Shiventa Sivanesan, Assistant Director – Investment Management and Stewardship, presented the report on the Investment Strategy Statement (ISS), which had been reviewed and updated in conjunction with the Fund's triennial actuarial valuation.

The Committee were advised that the Strategic Allocation Investment Benchmark had been revised in line with a continuation of themes from the 2020 ISS review,

including ongoing reduction in the allocation to growth assets and increase in the allocation to income and stabilising lower risk assets, reflecting the capacity to reduce risk and retain the level of target return required to support the funding strategy.

Pending approval of the ISS by the Committee, Fund officers will work alongside the Fund's investment advisors to devise an implementation plan and a timeline of transition to the new strategy, which would be presented to the Committee in due course.

In response to a question raised by Cllr Hyatt regarding time limited engagement targets, the Assistant Director – Investment Management and Stewardship advised that the engagement was assessed on a case-by-case basis by the Fund and its investment and stewardship partners. Further dialogue with partners regarding disclosure and reporting of escalations, outcomes and achievements is currently taking place. Cllr Hyatt welcomed and congratulated the Fund on the inclusion of its climate change belief statement.

In response to a question raised by Cllr Collingswood regarding ethical investments, the Chair advised the Committee on the importance of considering ethical issues in the context of the Fund's values, principles and responsible investment beliefs.

Resolved for Ratification by Urgent Decision:

1. The revised Investment Strategy Statement for the West Midlands Pension Fund. Noting:
 - The ISS has been prepared in line with the statutory requirements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
 - That the WMPF ISS has been updated to reflect outcomes of the Fund's triennial funding and investment strategy reviews, incorporating changes to the Fund's Strategic Investment Allocation Benchmark.

7 **Corporate Plan 2023-2028**

Rachel Brothwood, Executive Director of Pensions, presented the report on the work of the Fund's Corporate Plan for 2023 – 2028.

The Committee were advised that the Fund develops and maintains a rolling 5-year plan to capture the goals and ambitions that continue to evolve from both engagement with a variety of stakeholders and the changing context for pension funds and the Local Government Pension Scheme (LGPS).

The seven core themes within the Fund's goals and ambitions were retained, but reflected a review of the outlook and, in particular, the evolving risks landscape and drivers for change,

The Executive Director of Pensions outlined the developments and outlook for the coming year across key aims and objectives, set in the context of the Fund's overarching ambition to create sustainable futures for all.

Cllr Hyatt commended the Executive Director of Pensions for the report and ensuring that sustainability is central to the Fund's vision for the future.

Resolved for ratification by Urgent Decision:

1. The Fund's Corporate Plan for 2023-2028.

8 **Operating Budget (2023) and 5-year Financial Plan**

Christopher Manning, Head of Finance, presented the report on the proposed Fund Operating Budget for 2023/24 and the Medium-Term financial plan for the five years up to and including 2027/28, noting areas of development since 2022/23.

The Committee were advised that the total budget for next year stood at £122.7 Million, showing an increase of £6.7 Million from this year's budget.

The increase was broadly split evenly between the operational costs of the Fund and forecast investment management fees.

The operational costs were driven by employee costs, incorporating an allowance for pay growth and the continued development of the capacity within the Fund, linked to the delivery of Fund's Corporate Plan.

The Committee were advised that the one-year costs to support the implementation of the new pensions administration system had been included within the Fund's budget.

The Fund's investment management fees were based on the value of the assets held by the Fund as at the 31 December 2022. The forecast was based on a number of assumptions detailed within the report.

In response to a question raised by Malcom Cantello, Trade Union Representative, regarding the investment management costs, the Head of Finance advised that the LGPS Central investment management costs were in line with the Fund's pooling cost sharing agreement. The Fund would continue to monitor to ensure value for money.

Rachel Brothwood, Executive Director of Pensions, advised the Committee that with anticipated changes to the asset allocation and incorporation of a wider range of objectives within investment mandates, higher investment management costs were expected to emerge in coming years, with investment decision taking cost and risk-adjusted returns (net of cost) into account.

Resolved for ratification by urgent decision:

1. The Operating Budget for 2023/24.
2. The Medium-Term Financial Plan for the period to 2027/28.

9 **Accounting Policies**

Christopher Manning, Head of Finance, presented the report on the accounting policies to be used in preparing the Fund's' accounts for the 2022/23 financial year.

The Committee were advised that there were no changes to report and that the policies were aligned to those used last year. This reflected the stable nature of the accounting framework used by the Fund in preparing the accounts.

Resolved for ratification by urgent decision:

1. The West Midlands Pension Fund accounting policies for the 2022/23 financial year.

10 **External Audit Plan 2023**

Christopher Manning, Head of Finance, presented the report on the external audit and the preparation of the Audit Plan for the Fund's Annual Report and Accounts for 2022/23.

The Committee were advised that the first part of the report contained an update on the work undertaken by Grant Thornton towards the audit for the year to the 31 March 2023. The second part of report included the management responses to questions from the auditors, that had been prepared by officers and were being presented to the Committee for approval.

In response to a question raised by Cllr Collingswood regarding the 150% increase to the external audit fees for the Pension Fund, the Head of Finance advised that the increase linked with the sector-wide review of audit work and confirmed that the scope and appointment of the auditor for the Local Authority and Fund was aligned to the Public Sector Audit Appointments, with pricing being monitored and challenged where possible to maintain a sensible price for the Fund.

Resolved for ratification by urgent decision:

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

Resolved:

2. That the External Audit Plan for the 2022/2023 Audit Progress and Indicative Risks Report as prepared by Grant Thornton [Appendix A] be noted.

11 **Internal Audit Plan 2023-2024**

Peter Farrow, Head of Audit, and Amanda MacDonald, Audit Business Partner, presented the report on the outline work programme for internal audit during 2023 – 2024.

The Head of Audit provided the Committee with some background with regards to the internal audit process which followed the Chartered Institute of Public Finance and Accountancy (CIPFA) methodology.

The Head of Audit advised the Committee that the internal audit plan had been focused on where most value could be added, covering a range of areas across the Pension Fund.

In response to a question raised by Malcom Cantello, Trade Union Representative, Amanda MacDonald, Audit Business Partner advised that the audit work this year had been split to make it manageable in context of resource constraints but also allowing officers to focus on particular areas and go into more detail.

In response to a question raised by Cllr Collingswood, the Head of Audit advised he was fairly confident in the delivery of the audit plan with the resources available and that a mid-term statement and end of year audit opinion would be bought to the Committee.

Resolved for ratification by urgent decision:

1. The Internal Audit Plan for 2023 – 2024.

12 **Compliance and Assurance**

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

With regards to the risk register, included at appendix A, the Committee were advised that the mitigations, controls and drivers in place could change based on the current environment and could be impacted by the current economic climate.

It was noted that there was a continuation of risk themes previously reported but that the drivers for the themes had adjusted slightly.

The Fund continued to see the impact of the current economic climate and the potential impact of rising costs and heightened budget and resource pressures for the Fund's employers, together with the ongoing uncertainty around regulatory change and business change initiatives.

The Head of Governance, Risk and Assurance noted that as normal for this time of year the upcoming elections and cycle of nominations to the Fund's governing bodies had been noted on the risk register, as the Fund looks to build and maintain knowledge.

In relation to Key Performance Indicators (KPIs) presented within the report, the Head of Governance, Risk and Assurance confirmed that, from an assurance perspective, the Fund had no concerns with the figures being reported. It was noted that the Fund were compliant with the statutory information governance procedures and again there were no concerns from a compliance perspective.

The Governing Body training details included in the report were noted and members were reminded that individual training hours would be included in the Fund's annual report produced at the year end.

In response to a question raised by Malcom Cantello, Trade Union Representative, regarding the statutory timeliness of responding to information requests, the Head of Governance, Risk and Assurance confirmed that the complexity of Freedom of Information (FOI) requests received had increased and that extra time had been taken to perform due diligence on the information being provided.

In response to a question raised by Cllr Collingswood regarding what the Fund was doing to reduce the high volume of calls and emails to their customer contact centre, the Head of Governance, Risk and Assurance advised that the increased volume of calls and emails to the customer contact centre was due to the current increased pension awareness, enquiry and the level of complexity within the scheme, with many calls received being in relation to clarity of members' options regarding retirement and set up of access to the online member portal.

In relation to a query from Cllr Collingswood, the Head of Governance, Risk and Assurance provided additional information on the three data breaches detailed within the report. It was further advised that the figures for data breaches at the Fund were low in comparison to the volume of data handled by the Fund. It was noted that the Fund completed due diligence and reported the breaches for completeness. Cllr Collingswood commended the Fund for the transparency in identifying the discussed breaches.

Cllr Collingswood enquired about any potential impact on the Fund as a result of the recently announced pensions tax changes. The Head of Governance, Risk and Assurance confirmed that this does fall within the general theme around statutory

and regulatory forthcoming change that could impact the Fund, noting that guidance on implementation is pending. The Executive Director of Pensions confirmed that plans are in place to communicate changes to the membership, with the numbers impacted expected to be low.

Resolved:

1. That the latest Strategic Risk Register and areas being closely monitored in the current environment be noted.
2. That the Fund's KPIs and action taken to support service delivery be noted.
3. That the compliance monitoring activity undertaken during the quarter be noted.

13 **Pensions Administration to 31 December 22**

Amy Regler, Head of Operations, presented the report on the routine operational work undertaken by the Pensions Administration Service areas during the period 1 October – 31 December 2022.

During the period overall, the Fund saw a decrease in outstanding case work, despite the continued high volume of new case work started during the period. The continued decrease was attributed to the focus work that has been undertaken by the teams.

The Head of Operations advised that the Fund would start targeting and clearing case work in preparation for the change in pension administration system. It was noted that there was one KPI which did not achieve target on two occasions during the period.

In response to a question raised by Cllr Collingswood regarding the reason for the reduced number of complaints received to the Fund, the Head of Operations advised that there are measures in place to monitor the types of complaints received and lessons learned from these. In addition, it was noted that quarterly surveys are administered to capture members' experiences and where they feel improvements could be made.

Resolved for Ratification by Urgent Decision:

1. The 8 applications for admission from employers into the Fund as detailed in Section 9 and Appendix E of the report.

Resolved:

2. That the performance and workloads of the key pension administration functions be noted.
3. That the development of the Fund's membership and participating employers be noted.

14 **Customer Engagement**

Simon Taylor, Assistant Director – Pensions, presented the report on the Fund's customer engagement activity from 1st October 2022 to 31st December 2022 and covered future planned customer engagement activity in the context of the Fund's Customer Engagement Strategy.

The Committee were advised that the Pensions Saving Statements issued in October 2022 had driven a significant level of interest in the Fund's supporting webinars.

With the recent budget announcement, specifically the increase in the annual allowance and the abolition of the lifetime allowance, the Fund will review its engagements within this area to be more proactive, ahead of issuing this year's Pensions Saving Statements. It was noted that the Fund were envisaging minimal impact, with reduced numbers of statements and less members triggering additional taxations as a result.

It was noted that Fund employer engagement had primarily centred around the transition of the pensions administration software, employer performance, responsibilities, and the actuarial valuation.

The Assistant Director – Pensions advised the Committee that a link to the Pensioner Newsletter had been included in the report.

The Fund continues to consider outreach and its effectiveness, including methods of delivery and how the Fund might better engage different demographics such as younger members.

In response to a question raised by Cllr Collingswood regarding the levels of calls to the contact centre, the Assistant Director – Pensions advised that member calls fluctuate largely due to scheme events such as the distribution of Annual Benefit Statements. The Fund reviews its mechanisms to reduce the traffic, such as the pensions portal, the Fund's website, use of electronic enquiry forms and improved call routing to divert calls to the appropriate call handlers.

In response to a question raised by Cllr Hyatt, the Assistant Director- Investment Management and Stewardship advised that the Responsible Investment member survey is currently being progressed, with the outcomes expected to be reported to the Committee later in the year.

Martin Clift, Trade Union representative, commented that, in his longstanding involvement with the roadshow bus visiting the depots, they have been life-changing for members as it has reminded people about what they can actually do with their pensions.

Regarding a question around the McCloud Employer Support and the Fund's legal requirement, raised by Trade Union Representative Malcolm Cantello, the Assistant Director – Pensions confirmed that there are currently around 70 employers who are yet to submit their required data. Assurance was provided in that most employers with submissions outstanding are very small, with low numbers of members being affected, and that the Fund continues to follow up with these employers, noting the risk to pension liabilities.

Resolved:

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

15

Responsible Investment Update

Shiventa Sivanesan, Assistant Director – Investment Management and Stewardship, presented the report on the work undertaken in relation to responsible investment activities since the last Pensions Committee meeting.

The Committee were provided with an overview of the key Voting Principles and engagement activity from the Fund to December 2022.

The Committee was asked to note the draft updated Voting Principles for 2023 and additional engagement examples. The updated draft voting principles were updated in line with the annual review process and had been developed in consultation with LGPS Central.

The Assistant Director – Investment Management and Stewardship advised the Committee on two key changes - increasing the expectation set for companies around Boards and their composition and diversity and increasing expectations for company disclosure on key areas such as; Climate Change; Gender Pay; Human Rights; and Tax Transparency.

The final version of the Voting Principles will be presented to the Pensions Committee in June 2023.

The remainder of the report contained examples of engagement activity in line with the agreed four engagement themes including; Climate Change; Sustainable Food Systems; Human Rights; and Responsible Financial Management.

The Fund continues to receive and respond to queries around its responsible investment activity and update the Committee as required.

Resolved:

1. That the Fund's draft Voting Principles 2023 [Appendix A] be noted.
2. That the Fund's engagement and voting activity for the three months ending 31st December 2022 [Appendices B and C] be noted.
3. That the issues discussed by Local Authority Pension Fund Forum (LAPFF) that are set out in the Quarterly Engagement Report, which is available on the LAPFF website: [LAPFF Quarterly Engagement Report](#) be noted.
4. That the research and engagement activity undertaken by EOS at Federated Hermes, as set out in the Annual Review, is available on the EOS website: [EOS 2022 Annual Review](#) be noted.

16

Quarterly Investment Report to 31 December 22

Paul Nevin, Assistant Director – Investment Strategy, presented the report on the developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Separate Funds).

The Assistant Director – Investment Strategy advised the Committee that in terms of market background, the Fund saw that most asset classes had performed reasonably well, despite the challenging 12-month period, as the central banks began raising their rates to combat inflation.

The main Fund returned 1.8% over the quarter. Over the year the Fund was down around 6%, but was up nearly 4% per annum, over the 3- and 5-year periods.

Over the quarter the Fund outperformed their benchmark by 0.9% with the growth assets being the major contributor.

The overweight to growth assets has continued due to the Fund drawing down gradually on calls to fund commitments to private credit assets, with phased reduction, as expected.

Admitted Body Separate Funds (ABSFs) both had flat performance over the quarter and assets were down c30% over the year. This is due to the structure of ABSFs being different to the main Fund and as the ABSFs contain assets that match liabilities, with asset values reducing in line with liabilities.

Noting the current issue relating to some US Banks, the Assistant Director - Investment Strategy confirmed that the Fund's direct exposure to some of the banks that faced collapse was relatively small. In terms of the wider ramifications, the banking systems was in a much more robust state and the Fund saw no significant knock-on ramifications. The Fund had consulted with their advisors and the Investment Committee had met to review asset allocation and implementation of changes to the strategic allocation benchmark, with no change to the long-term targets and steps taking to move towards. The Fund would be looking at market events cautiously and take the necessary steps to ensure the Fund could take advantage of the risks and opportunities as the new investment strategy is implemented.

Cllr Hyatt thanked the Assistant Director – Investment Strategy and was pleased with the report.

Cllr Collingswood welcomed the Assistant Director – Investment Strategy to the Committee. He thanked him for the report and supporting briefing note on market developments which was useful and timely.

Resolved:

1. That the global market and investment update paper prepared by the Fund's Investment Consultant, Redington be noted.
2. That the asset Allocation and Performance Reporting for the Main Fund and Admitted Body Separate Funds be noted.

17

Budget Monitoring and Quarterly Accounts to 31 December 2022

Christopher Manning, Head of Finance, presented the report on the year end forecast at the end of the quarter (nine months) ended 31 December 2022 and provided an update on the value of the net assets of the Fund at the end of the same quarter.

The forecast was consistent with the report presented to the Committee the previous quarter and reflected an overall underspend of £5.4 Million. £1 Million reflected an underspend against employee costs, regarding the challenges around recruitment.

The remaining balance relates to investment management costs, driven by the reduction in value of assets throughout the year.

Resolved:

1. That the value of the net assets of the West Midlands Pension Fund at the end of quarter ended 31 December 2022 was £19.3 billion (£19.1 billion net investment assets) be noted.
2. That as at the 31 December 2022, West Midlands Pension Fund forecasts an underspend of £5.4m at year end attributable to £4.5m forecast underspend on investment management expenses and £0.9m forecast underspend on operational costs, primarily related to lower employee costs, be noted.

18 **Exclusion of press and public**

Resolved:

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

19 **Cyber Security Update**

Amy Regler, Head of Operations, presented the report on the continued development of the Fund's approach to the management of cyber risk, confirming the programme of testing and assurance in place.

Resolved for ratification by urgent decision:

1. The Fund's updated Cyber Security Strategy document for 2023/24.

Resolved:

2. That the work undertaken in 2022/23 by the Fund to deliver its cyber security programme be noted.
3. That the annual assurance reporting from the City of Wolverhampton Council (CWC) IT Cyber programme be noted.

20 **LGPS Central Pooling and Shareholder Update**

Rachel Brothwood, Executive Director of Pensions, presented the matters considered and presented to Shareholders at the LGPS Central Limited General Meeting on 28 February 2023 and updated the Committee on the Company and pool progress.

Resolved:

1. That the Executive Director's update on Shareholder business relating to LGPS Central Limited be noted.
2. That the shareholder approval of the Company's 2023/24 business plan and budget be noted.

21 **Development of Fund Resources**

Rachel Brothwood, Executive Director of Pensions, presented the Fund's progress with employee recruitment and retention, confirming actions in train to support employee and service resilience and positive results from the Fund's recent all-employee survey.

Resolved:

1. That the progress with the Fund's recruitment and retention plans be noted.
2. That the action being taken to assess and support employee and service resilience be noted.
3. That the outcomes of the Fund's recent all-employee survey be noted.