

<b>Time</b>	2.00 pm	<b>Public Meeting?</b>	NO	<b>Type of meeting</b>	Pensions
<b>Venue</b>	West Midlands Pension Fund, i9 Offices, Wolverhampton Interchange, Railway Drive, Wolverhampton, WV1 1LD				

## Membership

### Employer Representatives

Mark Smith (Vice-chair)  
Joe McCormick  
Ian Martin  
Jacqueline Carman  
Andy Felton

### Member Representatives

Julian Allam (Chair) (Unite)  
Stan Ruddock (Unite)  
Adrian Turner (Unison)  
Terry Dingley (GMB)  
Sarah Feeney (Unison)

### Observer Member

Steve Smith

The Quorum requires, at least one member from each category of member and employer representatives. If the Chair and Vice Chair are not present a Chair will be nominated by majority from those in attendance.

## Information for the Public

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

**Contact** Fabrica Hastings  
**Tel/Email** Fabrica.Hastings2@wolverhampton.gov.uk 01902 552873  
**Address** Democratic Services, Civic Centre, 1st floor, St Peter's Square,  
Wolverhampton WV1 1RL

Copies of other agendas and reports are available from:

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**Tel** 01902 550320

Please take note of the protocol for filming, recording and use of social media in meetings, copies of which are displayed in the meeting room.

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

# Agenda

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

<i>Item No.</i>	<i>Title</i>
1	<b>Apologies for Absence</b>
2	<b>Declaration of Interests</b>
3	<b>Minutes of Previous Meeting</b> (Pages 5 - 10) [For approval.]
4	<b>Matters Arising</b>
5	<b>Corporate Plan 2023-2028</b> (Pages 11 - 16) [To provide Board with an update on the work of the Fund in delivering against the goals and ambitions set out in the Corporate Plan 2023 - 2028.]
6	<b>External Audit Plan</b> (Pages 17 - 78) [To provide the Board with the plan for the external audit of the Fund's Annual Report and Accounts for 2023/24.]
7	<b>Internal Audit Annual Plan</b> (Pages 79 - 92) [To provide the Board with the outline of work programme for internal audit during 2024 – 2025.]
8	<b>Investment Governance</b> (Pages 93 - 130) [To update the Board on investment related matters, an update on responsible investment activities.]
9	<b>Pensions Administration Report to 31 December 2023</b> (Pages 131 - 144) [To receive an update on the routine operational work undertaken by the pensions administration service areas during the period 1 October 2023 to 31 December 2023.]
10	<b>Customer Engagement Update</b> (Pages 145 - 158) [To receive an update of the Fund's customer engagement activity.]
11	<b>Regulatory Update</b> (Pages 159 - 164) [To provide Board with an update on the regulatory environment in which the Fund is operating and the work being undertaken to stay informed and prepared for change.]
12	<b>Risk and Assurance</b> (Pages 165 - 174) [To receive an update on the work of the Fund to deliver a well governed scheme.]



- 13        **Exclusion of press and public**  
[To pass the following resolution:
- That, in accordance with section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within paragraph 3 of Schedule 12A to the Act.]
- 14        **Cyber Security Update (Pages 175 - 196)**  
[To receive an update on Cyber Security and the 2024/2025 Cyber Security Strategy.]
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
- 15        **Pensions Administration System Transition (Pages 197 - 204)**  
[To receive an update on the project managing of the completion of development and improvement works following the transition of the pension administration system to the new provider.]
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
- 16        **Development of Fund Resource (Pages 205 - 212)**  
[To provide an update on staffing developments and requirements to support the Fund service delivery.]
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)

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## Attendance

### Members of the Pensions Board

#### Employer Representatives

Ian Martin  
Mark Smith – (Vice-Chair)  
Joe McCormick  
Andy Felton  
Jacqui Carmen – Virtual Attendee

#### Member Representatives

Adrian Turner  
Stan Ruddock  
Julian Allam – (Chair)  
Sarah Feeney  
Terry Dingley – Virtual Attendee

#### Observer Member

Steve Smith

#### Employees

Rachel Brothwood	Executive Director of Pensions
Rachel Howe	Head of Governance, Risk and Assurance
Simon Taylor	Assistant Director – Pensions
Shiventa Sivanesan	Assistant Director – Investment Management and Stewardship
Christopher Manning	Head of Finance
Hayley Reid	Regulatory Governance Manager
Laura Parker-Marsden	Governance Support Officer

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

*Item No.*    *Title*

- 1        Apologies for Absence**  
No apologies for absence were received.
- 2        Declaration of Interests**  
There were no declarations of interest.
- 3        Minutes of Previous Meeting**  
That the minutes of the meeting held on 17 October 2023 be approved as a correct record.

4 **Matters Arising**

The Chair welcomed two new members to the Board, Employer Representative Andy Felton and Member Representative Sarah Feeney.

5 **Pensions Administration Report to 30 September 2023**

Simon Taylor, Assistant Director – Pensions, presented the report on the routine operational work undertaken by the Pensions Administration Service areas during the period 1 July 2023 – 30 September 2023.

The Board were asked to note that, at their December meeting, Committee had approved; the applications for admission of employers into the Fund and; the delegation to the Chair to approve the minor change to the Internal Dispute Resolution Procedure (IDRP) Policy Statement following review.

In response to a question around customer servicing following the launch of the new administration system, the Assistant Director – Pensions explained how the Fund has now increased telephone line opening hours and that the Fund is actively engaging with both members and employers by issuing regular updates and signposting to the dedicated system transition page on the Fund’s website to provide further support.

In relation to a question around the member self-service portal, the Assistant Director – Pensions outlined progress, confirming that active members can now produce estimates online and noting that since the Board last met in October 2023, the number of portal registrations had doubled.

Jacqui Carman – Employer Representative (Further Education Colleges) informed the Board that she had been contacted by the Principal of another Further Education College and been asked to formally raise concerns with the Board with regards to the impact of the Fund’s Administration system transition, particularly noting concerns around delays in member servicing. The Assistant Director provided assurance to Board with regards to the issues raised, highlighting specifically the work being undertaken to reduce delays and improve customer response times.

Julian Allam, Chair of Pensions Board, noted that following the meeting he would work with officers to feed back on the issues raised and discussed to the Chair of the Pensions Committee, Councillor Milkinder Jaspal.

**Resolved:**

1. That the delegation to the Chair of the Pensions Committee to approve the revised IDRP policy statement change as detailed in Section 5 of this report following the required documentation review and consultation be noted.
2. That the 5 applications for admission from employers into the Fund as detailed in Section 8 and Appendix A of this report, as approved by Pensions Committee in December 2023 be noted.
3. That performance and workloads of the key pension administration functions be noted.

6 **Customer Engagement Update**

Simon Taylor, Assistant Director – Pensions, presented the report on the Fund’s customer engagement activity from 1st July 2023 to 30th September 2023 and provided updates in relation to the new system transition and how engagement has been tailored to meet customer needs in light of this. Newsletters have been issued to active and deferred members this quarter and the Roadshow bus has visited a number of sites across the region.

The Assistant Director – Pensions noted that complaints had risen during the reporting period and confirmed that the Fund were continuing to engage with members and participating employers to resolve their concerns.

**Resolved:**

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

7 **Risk 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.

The Head of Governance, Risk and Assurance highlighted changes to the Board’s membership, confirming the appointment of two new members: Andy Felton, employer representative and Sarah Feeney, member representative.

The Head of Governance, Risk and Assurance highlighted the current areas of focus in the management of risk across the Fund, noting the focus on transformational change within the Risk Register.

It was further noted that the Fund’s final Audit Findings Report was presented to the City of Wolverhampton Council’s Audit and Risk Committee on 22 January 2024.

The Head of Governance, Risk and Assurance noted that, following the release of the Pension Regulator’s Single Code of Practice, the Fund would now undertake a review and gap analysis of areas of compliance to ensure alignment with the requirements of the new code. It was noted that anticipated wider ongoing regulatory changes have the potential to lead for further change outcomes.

In response to a question raised regarding any potential additional risk the recent Investment Pooling Consultation may pose in relation to the LGPS Central Pool, the Head of Governance, Risk and Assurance outlined ongoing work and collaboration to mitigate any emerging risks.

The Executive Director of Pensions advised that, in relation to the Fund’s Risk Register, the Investment Strategy had been highlighted as the review concluded in March 2023 presented a material change in long term strategic asset allocation, with substantial work to do to complete implementation.

**Resolved:**

1. That changes to the membership of the Local Pensions Board 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 Annual Report and Accounts which have been published on the Fund's website in accordance with the statutory deadline of 1 December 2023 be noted.
5. That the publication of the Pension Regulator's new Code of Practice be noted.

## 8 **Investment Governance**

Shiventa Sivanesan, Assistant Director - Investment Management and Stewardship, presented the report and provided an update on routine investment matters. The three key areas of focus around responsible investment, investment pooling and the continued implementation of the Investment Strategy were discussed.

The Assistant Director - Investment Management and Stewardship was pleased to report that the Fund has seen a 30% reduction in carbon emissions within its investment portfolio since December 2019.

In relation to a question around next steps following the LGPS Investment Consultation and government response in November 2023, it was advised that further guidance is expected during 2024.

### **Resolved:**

1. That the update on investment governance matters including those in relation to responsible investment and the implementation of investment strategy be noted.
2. That publication of the Fund's 2023 Taskforce for Climate-related Financial Disclosure (TCFD) Report [Appendix A] be noted.

## 9 **Pensions Administration System Transition Update**

Christopher Manning, Head of Finance, presented a report on the progress with the transition of the pension administration system to the new provider, Equiniti and roll out of the new system, Compendia, following transition to the "live" environment as planned over Summer 2023.

### **Resolved:**

1. That the progress made in transition of the Fund's core services following phased roll-out of the new pension administration system be noted.

## 10 **Employer Covenant**

Simon Taylor, Assistant Director – Pensions, presented the report on employer covenant and funding development to the Board.

### **Resolved:**

1. That the commentary on the improved funding position, associated considerations and stakeholder engagement be noted.
2. That the update on employer/sectoral developments which may have implications for employer covenant be noted.

11

**Pension Fund Resourcing**

Rachel Brothwood, Executive Director of Pensions, presented the report on pension fund resourcing to the Board.

**Resolved:**

1. That the update on Fund recruitment and retention be noted.
2. That the initiatives being undertaken to support employee development and wellbeing be noted.
3. That development of the Fund's EDI (equality, diversity and inclusion) policy be noted.

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 23 April 2024
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<b>Report title</b>	Corporate Plan 2023-2028	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Rachel Howe Email	Head of Governance, Risk and Assurance <a href="mailto:rachel.howe@wolverhampton.gov.uk">rachel.howe@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:rachel.brothwood@wolverhampton.gov.uk">rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for noting:**

The Pensions Board is recommended to note the approval by the Pensions Committee on 20 March 2024 of:

1. The continuation of the Fund's the Corporate Plan 2023 – 2028 for the coming year, noting delivery against its goals and ambitions over 2023/24 and review planned for 2025, once the current themes have run for three years.

## **1.0 Purpose**

- 1.1 To provide Board with an update on the work of the Fund in delivering against the goals and ambitions set out in the Corporate Plan 2023 – 2028.

## **2.0 Background**

- 2.1 The Fund's latest Corporate Plan covers the period from 2023-2028 and was developed ahead of approval in March 2023, taking into account the evolving regulatory landscape, the developing needs and expectation of Fund customers and the Fund-led initiatives contributing to the delivery of sustainable futures for all.
- 2.2 The Fund, through its ongoing dialogue with customers, employees, industry and governing bodies, identified risk-based drivers for priority and change which are common across a number of themes. These relate to ongoing enhancement of data and information management, supporting customers and people through change and extending inclusive engagement supported by an outcome orientated approach.
- 2.3 The Plan includes seven themes and spotlights a targeted approach to investment implementation and stewardship, adding value for our customers, operational resilience and the development of internal controls, risks management and assurance.
- 2.4 The Board received an update on the Fund's progress during 2023/24 in October 2023. During the first part of the year, Fund achievements were noted in re-accreditation of the Fund's Investors in People Gold standard and Customer Service Excellence, ongoing signatory status to the UK Stewardship Code and awards for innovation in investment and member communication initiatives. Launch of the new Pensions Administration System, ongoing finance transformation programme and review of the Fund's business continuity programme were ongoing and contributing to the developing programme of work to further develop operational resilience. In this latest reporting period, we are pleased to confirm our reaccreditation to PASA, the Pension Administration Standards Association. The Fund being the first LGPS Fund in England and Wales to gain the accreditation in 2020 and retaining this accreditation following re-assessment during Q4 2023.

## **3.0 Progress Update and Looking Ahead**

- 3.1 Over the last six months, the Fund has continued to make progress across all seven themes, whilst being agile to the developing operational challenges and emerging regulatory changes and standards impacting all Administering Authorities within the LGPS. Many of the areas noted below are covered in more detail in other reports to the Board and are noted here for the purposes of demonstrating alignment with the aims and objectives of the Corporate Plan.

### 3.2 Engaging our people and customers.

Recruitment, employee development and support has focused on building capacity, resilience, and skills to manage change and growth in a challenging customer serving environment. Parallel focus on the value and importance of diversity and inclusion through planned engagement has provided greater insight and understanding of the Fund's areas of strength and focus for future development. Recognising natural differences in individual engagement and learning styles has also resonated with customer servicing and member outreach work. Customer updates, servicing and information has been developed and informed through engagement with members, employers and their representatives, with the impact on customer experience to be measured in feedback over future periods.

As discussed with the Board in October 2023, the Fund recognises both the wide range of customer requirement and engagement preferences. Balance of resource and focus across both in-person and online support has been maintained and continues to develop as customer demand, requirements and Fund capacity continues to evolve. Further engagement with the Fund's customer base is planned as the Fund continues to develop its forward-looking diversity and inclusion commitment. Changes within Fund employers and the potential impact on members is an area the Fund continues to monitor and reach out to support.

### 3.3 Progressive investment and stewardship activity

Cognisant of the changing economic and market environment and change in strategic asset allocation set out in the Fund's investment strategy statement approved in March 2023, significant progress has been made to reallocate Fund assets towards meeting long term targets. Alongside priority review of areas of the portfolio where allocation is significantly increasing, the responsible investment framework, driving beliefs and engagement themes have been reviewed and updated for integration alongside existing and new investment mandates.

As part of its ongoing asset management the Fund has continued to seek opportunities to improve the sustainability attributes of assets, with ongoing climate risk reporting and wider climate framework and strategy review pending, to continue to monitor and track progress towards meeting the Fund's Net Zero ambition.

### 3.4 Developing risk management approach and operational resilience

As part of continuing to develop and build the Fund's risk management approach, the Business Continuity Planning (BCP) Framework has been updated to reflect working arrangements and practice post COVID-19, reflecting the more agile working environment and changes to working and recovery plans required. Alongside measures to ensure the Fund is well equipped to manage incidents (including safeguarding and cyber) this is supporting review and refresh of day-to-day service resilience plans, to ensure effective line 1 risk management.

Over the last six months and as part of the finance transformation programme and wider assurance planning work, internal controls frameworks have been reviewed and updated across finance, fund accounting, IT general controls and investments, with work ongoing to embed and test.

### 3.5 Effective resource allocation and value for money

During the year resource allocation and spend has been reviewed and reallocated to meet the emerging priorities and demands on the Fund. Responding to customer servicing and benefit processing has taken priority of over elements of service development in the short term. An extended period of Pensions Administration System development and change has also impacted progress on planned operational development with additional project work being identified and planned for 2024/25 to support progress in the coming year.

Both Fund administration and investment servicing has been benchmarked independently and continues to demonstrate value add by the Fund's delivery of pension administration services and implementation of investment strategy.

### 3.6 Contributing to partnerships and industry development

In a year where the pensions industry has been in the spotlight and subject to a wide range of consultation and change, the Fund and Leadership team have been active in engaging with industry development, debate and responding to consultations. This has been valuable in informing the Fund's own development and prioritisation, keeping Governing Bodies up to date and working with peers and partners to develop and respond to increasing asks from the government and industry regulators.

As a result, the Fund is well placed to respond to increasing governance standards and reporting requirements being introduced for the LGPS and will remain focused on its response to new statutory deliverables (such as Pensions Dashboards) over 2024/25.

### 3.7 The Year Ahead

The Fund's Senior Leadership Team have reviewed the Corporate Plan 2023-2028, associated themes and ongoing initiatives. These remain appropriate for 2024/25 noting a number of the regulatory and Fund-led changes which were on horizon are now moving to implementation. Progress will continue to be monitored over the coming year, with a view to re-setting from 2025, when the current themes will have run for 3 years.

## 4.0 **Financial Implications**

4.1 The Fund's delivery of its Corporate Plan and the initiatives developed to support are included in the Fund's operational budgets for 2023/24, 2024/25 and 5-year financial plan, approved by the Pensions Committee in March 2024.

## **5.0 Legal Implications**

- 5.1 The Local Government Pension Scheme is governed by a combination of local government, finance, and occupational pension scheme regulations. The Fund undertakes a continual review of the legislation governing the management and administration of the Fund and its investments ensuring a proactive management of change and compliance.
- 5.2 Failure by the Fund to comply with legislation and/or statutory guidance can result in enforcement action and fine from both the Pensions Regulator (tPR) and the Courts via judicial review.

## **6.0 Equalities Implications**

- 6.1 The Fund undertakes Equality Impact Assessments for all new initiatives with considerations given to Equality and Inclusion in line with guidance from the Employer's Network for Equality and Inclusion (ENEI). There are no implications.

## **7.0 Other Implications**

- 7.1 None

## **8.0 Schedule of Background Papers**

- 8.1 [WMPF Corporate Plan 2023 – 2028](#)

## **9.0 Schedule of Appendices**

- 9.1 None

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 23 April 2024
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<b>Report title</b>	External Audit Plan	
<b>Originating service</b>	Pensions Services	
<b>Accountable employee</b>	Christopher Manning Email	Head of Finance <a href="mailto:Christopher.Manning@wolverhampton.gov.uk">Christopher.Manning@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:Rachel.Brothwood@wolverhampton.gov.uk">Rachel.Brothwood@wolverhampton.gov.uk</a>

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**Recommendation for decision:**

The Pensions Board is recommended to note the approval by Pensions Committee on 20 March 2024 of:

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

The Pensions Board is also asked to note:

2. The external Audit Plan for the 2023/2024 Audit as prepared by Grant Thornton [Appendix A].

## **1.0 Purpose**

- 1.1 The purpose of this report is to inform Board members of the progress of the external audit and the preparation of the Audit Plan for the Fund's Annual Report and Accounts for 2023/24.

## **2.0 Background**

- 2.1 The purpose of the Audit Plan is to direct and communicate the audit approach to the Pensions Committee and share with the Board. 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.
- 2.2 For the 2023/24 audit the Fund has a new Audit Partner with Mark Stocks taking over the lead of the audit as part of the routine and planned rotation.

## **3.0 Audit of Accounts 2023/24**

- 3.1 The Audit Plan, prepared by Grant Thornton, is appended to this report (Appendix A). The document sets out the high level timings of Grant Thornton's proposed work on the external audit along with the key risks identified during their planning work and how these will be addressed as part of the audit work. The respective responsibilities of both Grant Thornton and the Fund are included within the plan.
- 3.2 The ultimate outcome of Grant Thornton's work will be an opinion on the Fund's Annual Statement of Accounts and Annual Report, this will be accompanied by an Audit Findings Report (AFR) which will be presented to the Pensions Committee and shared with the Board.
- 3.3 The audited Statement of Accounts, including the audit opinion, will be presented for Committee's formal approval in September ahead of this year's statutory deadline for publication by 30 September 2024.
- 3.4 The scope of the audit work for 2023/24 will include work to review the implementation of the new Pension Administration System, with a focus on data migration and collection during to year as part of the consideration of any impact that this may have on the preparation of the Statement of Accounts.

## **4.0 Risk Assessment**

- 4.1 As part of audit planning Grant Thornton request the Fund completes their Informing the Audit Risk Assessment document. This document (appendix B) sets out some of the potential areas of risk with regard to the Annual Report and Accounts. In accordance with auditing standards, Grant Thornton are required to formally seek the views of the Committee on these areas. The document provides management responses to questions posed by the auditor and these were reviewed and approved by the Pensions Committee in March 2024.



4.2 *Informing the Audit Risk Assessment* considers themes of particular relevance to the external audit under six areas:

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

## **5.0 Financial Implications**

5.1 External audit of the Annual Report and Accounts is a fundamental part of the system of financial controls that govern 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.

5.2 The basis for the audit fee is driven by the PSAA (Public Sector Audit Appointments) framework. The basis for fees in 2023/24 underwent consultation however despite the feedback received this was set at 150% of prior year fees. The audit fee increase has been queried with Grant Thornton who have referred the Fund to PSAA. The Fund has received confirmation that central government grant funding will be received to support audit costs.

## **6.0 Legal Implications**

6.1 This report contains no direct legal implications.

## **7.0 Equalities Implications**

7.1 This report contains no equalities implications.

## **8.0 Other Potential Implications**

8.1 This report contains no other potential implications.

## **9.0 Schedule of Background Papers**

9.1 None.

## **10.0 Schedule of Appendices**

10.1 Appendix A: External Audit Plan.

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

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# West Midlands Pension Fund Audit Plan

Year ending 31 March 2024



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## Your key Grant Thornton team members are:

### Mark Stocks

Key Audit Partner  
T 0121 232 5437  
E mark.c.stocks@uk.gt.com

### Keith Chaisewa

Audit Manager  
T 0121 387 9061  
E keith.chaisewa@uk.gt.com

### Ben Stevenson

Assistant Manager  
T 0121 212 4000  
E ben.stevenson@uk.gt.com

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

## National context

The national and international economic context continues to present challenges for pension funds. Inflationary pressures at home and abroad and wider geo-political issues mean there is volatility in global markets with a consequential impact on the investments held by pension funds. Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of local government pension funds and set employer contribution rates for the period 2023/24 – 2025/26. For West Midlands Pension Fund, the valuation was undertaken by Hymans Robertson, and showed that the Pension Fund was fully funded. At West Midlands Pension Fund, a small number of employers have opted to make an early payment of their deficit recovery contributions and these will be reflected in the Pension Fund's 2023/24 contributions.

In November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the outcome of their consultation on local government pension scheme investments. The government will now implement proposals which include revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, regulation to require funds to set a plan to invest up to 5% of assets in levelling up the UK and revised investment strategy statement guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity. The Chancellor has also outlined plans that local government pension funds will be invested in pools of £200bn or more by 2040.

DLUHC have also consulted on proposals to require local government pension scheme administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Climate risk (TCFD) reporting in the LGPS is expected to commence from 1 April 2024, with first reports due in late 2025. West Midlands Pension Fund has been conducting this reporting highlighting a report titled 'Climate-Related Disclosure Report' as prepared in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures which was published in December 2023.

In planning our audit, we have taken account of this national and international context in designing a local audit programme which is tailored to your risks and circumstances.

## Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report [About time?](#) In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

Local authorities which administer local government pension funds are required to publish full pension fund accounts in the same document as their local authority accounts. This requirement means that the audited accounts of the host authority and related fund cannot be finalised until both audits have been completed. This co-dependency has compounded delays in the conclusion of pension fund audits and publication of audited accounts and annual reports. In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.



# Key matters - continued

## Our Responses

- In 2017, PSAA awarded a contract of audit for West Midlands Pension Fund to begin with effect from 18/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Head of Finance. Page 19 of this Audit Plan, sets out the four contractual stage payments for this fee, with payment based on delivery of specified audit milestones.
- To ensure close working with our local audited bodies and an efficient audit process, our preference as a firm is to work on site with you and your officers. A project plan has been agreed with your finance team that incorporates hybrid working that is, a mixture of working both on site and off site. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Executive Director of Pensions twice a year, and with the Head of Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.

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- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Pensions Committee, to brief them on the status and progress of the audit work to date.
- We will continue to provide you and your Pensions Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Pensions Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- We identified a significant audit risk relating to the valuation of level 3 investments - refer to pages 9 and 10.
- We identified a significant audit risk relating to implementation of the new pensions administration system specific to data migration – refer to page 11. Our IT auditors will review whether the Pension Fund’s process for ensuring the data migration was complete and accurate.



# 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 the Pensions Committee and the Audit & Risk Committee as those charged with governance. For the Pension Fund, the Audit & Risk Committee (City of Wolverhampton Council) fulfil the role of those charged with governance and there is a separate Pensions Committee which considers the draft financial statements and is part of the overall member oversight process.

## Respective responsibilities

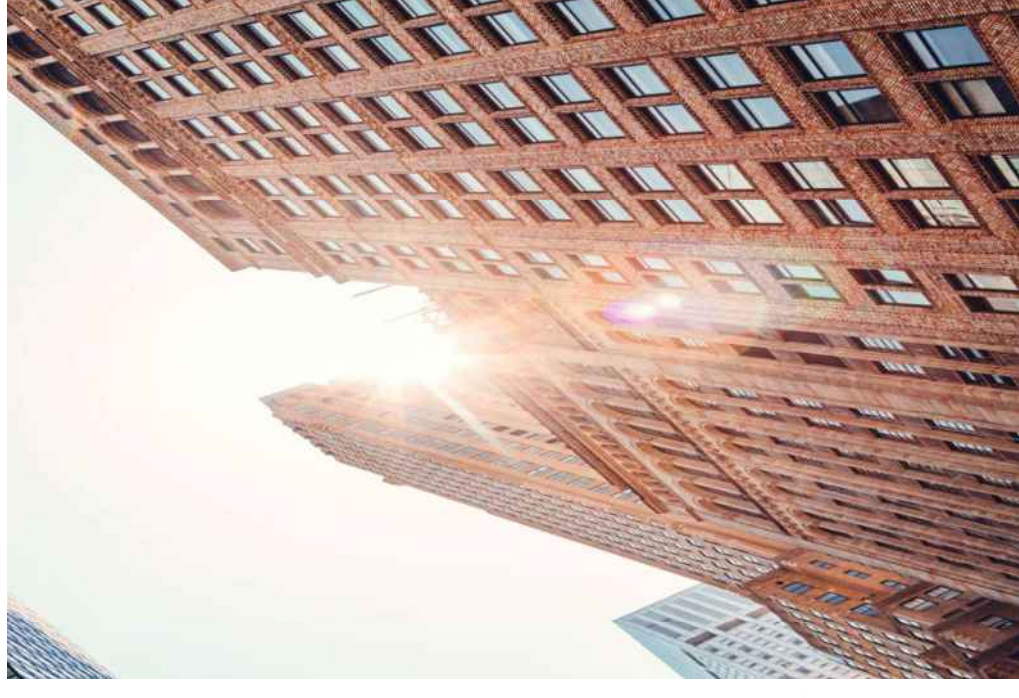
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed terms of Appointment 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 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 the Pensions Committee, for and on behalf of those charged with governance (the Audit & Risk Committee).

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

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





# Introduction and headlines

## Significant risks

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

- Management over-ride of controls
- The valuation of level 3 investments – directly held property
- The valuation of level 3 investments – financial assets

Change in pensions administration system  
 We have rebutted the presumed risk of fraud arising from revenue and expenditure recognition (see page 7 and 8).

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 £191.6m (PY £189.5m) for the Pension Fund, which equates to 0.98% of your gross investment assets as at 30 September 2023. We have determined a lower specific planning materiality for the Fund Account of £65.1m (PY £65.55m), which equates to 7.5% of your extrapolated gross expenditure (using financial information to 30 September 2023).

As a result of the change in pensions administration system, we have further determined a lower specific materiality for testing benefits payable of £36.2m which equates to 5% of your extrapolated benefits payable (using financial information to 30 September 2023).

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 £9.58m (PY £9.475m).

## Audit logistics

Our planning visit took place from January to March 2024. Our interim visit will take place from March to April 2024 and our final visit will take place from July to September 2024. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £193,195 for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

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
ISA240 revenue risk	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Having considered the risk factors set out in ISA 240 we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>- there is little incentive to manipulate revenue recognition</li> <li>- opportunities to manipulate revenue recognition are very limited</li> <li>- the nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions</li> <li>- contributions are made by direct bank transfers from admitted / scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely</li> <li>- transfers into the pension scheme are all supported by an independent actuarial valuation of the amount which should be transferred, and which is subject to agreement between the transferring and receiving pension funds</li> <li>- historically, the split of responsibilities between the Pension Fund, the Depositary and its Fund Managers (including those pooled with LGPS Central) provide a very strong separation of duties reducing the risk around investment income</li> <li>- the culture and ethical frameworks of local authorities, including the administering authority for the Pension Fund, City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable</li> </ul>

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)



# Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of assets, and this could potentially place management under undue pressure in terms of how they report performance.	<p>We will:</p> <ul style="list-style-type: none"> <li>- evaluate the design effectiveness of management controls over journals</li> <li>- analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>- test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>- gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence</li> <li>- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>

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PN10 expenditure risk	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting which may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets.</p> <p>Having considered the risk factors relevant to the Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply.</p> <p>We therefore do not consider this to be a significant risk for the Pension Fund.</p>
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Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto. Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.



# Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of level 3 investments – financial assets	<p>The Pension 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.</p> <p>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.</p> <p>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.</p> <p>Management utilise the services of investment managers to provide an estimate of the fair value of these assets.</p> <p>We therefore identified valuation of level 3 financial assets as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>- evaluate management's processes for valuing level 3 investments</li> <li>- review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments to ensure the requirements of the code are met</li> <li>- independently request year end confirmations from investment managers, with an additional focus on ensuring use of appropriate International Private Equity and Venture Capital Valuation (IPEV) (or equivalent) methodology in their valuation books, updated for most recent available guidance</li> <li>- for a sample of investments, test the valuation by comparing the valuation per the General Ledger (typically based on investor statements 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 investment balances from investment managers and, where available, latest audited financial statements</li> <li>- complete sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances</li> <li>- compare the investment unit price for any transactions close to year-end against the price per the confirmation received from the investment manager</li> <li>- review investment manager service organisation reports where these are available with specific emphasis on controls over the valuation of investments</li> </ul>

# Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of level 3 investments – directly held property</p>	<p>The Pension Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (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 valuers 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, particularly revaluations and impairments, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>- evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>- independently request year-end confirmations from the investment manager</li> <li>- evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>- write to the valuers to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met</li> <li>- engage our own valuer to assess the instructions to the Pension Fund's valuers, the Pension Fund valuers' report and the methodology and assumptions that underpin the valuation</li> <li>- challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding</li> <li>- for a sample of assets agree key inputs that is, rental income to signed lease agreements</li> </ul>



# Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Change in pensions administration system	<p>The Pension Fund has changed its pensions administration system from Universal Pensions Management (UPM) to Compendia. This has an impact on the financial statements with reference to data migration that is, the risk that information between the old and new system was not accurately and completely transferred resulting in errors in the benefits payable to members.</p>	<p>We will engage our IT audit specialists to:</p> <ul style="list-style-type: none"> <li>- perform a detailed ITGC assessment (for information, IT general controls are controls implemented within the IT environment to mitigate risks from the use of IT)</li> <li>- review system implementation</li> <li>- review data migration</li> </ul>
Page 31	<p>We note that there have been a number of implementation issues with the new pensions administration system. This includes delays in processing member benefits for new retirements and delays in the receipt of admitted / scheduled body data submissions. We have reduced our materiality in relation to benefits payable and will undertake additional work on contributions receivable.</p>	<p>We will also:</p> <ul style="list-style-type: none"> <li>- reduce materiality for benefits payable thus increasing our sample testing of benefits payable</li> <li>- review and test the Pension Fund's procedures to identify members who have not received their benefits payable on time and test whether they have been appropriately accrued at year end</li> <li>- perform analytical procedures on a month-by-month basis seeking to identify anomalies which will be further investigated</li> </ul>

# Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the actuarial present value of promised retirement benefits	<p>The Pension Fund's actuarial present value of promised retirement benefits, as reflected in the Pension Fund's notes to the pension fund statements represents a key estimate in the financial statements. We do not believe there is a significant risk of material misstatement in the IAS 26 estimate due to the methods and models used in the calculation or due to the source data used in the calculation.</p> <p>Though we acknowledge that small changes in key assumptions could materially impact the valuation, we are of the view that the incentives to misstate key assumptions (discount rate, inflation rate, salary increase and life expectancy) are low. A management expert is also engaged by the Pension Fund (with the appropriateness of the assumptions proposed by the actuary covered by the TAS actuarial standards) and finally, the valuation is not disclosed in the primary statements.</p> <p>On this basis, we have concluded that there is not a significant risk associated with the valuation of the actuarial present value of promised retirement benefits.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>- update our understanding of the processes and controls put in place by management to ensure that the disclosure is not materially misstated and evaluate the design of the associated controls</li> <li>- evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>- assess the competence, capabilities and objectivity of the actuary who carried out the promised retirement benefits valuation</li> <li>- assess the accuracy and completeness of the information provided by the Pension Fund to the actuary to estimate the liability</li> <li>- test the consistency of the promised retirement benefits and disclosures in the notes to the pension fund statements with the actuarial report from the actuary</li> <li>- undertake procedures to confirm the reasonableness of the actuarial assumptions used by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> </ul>



# Other risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of level 3 investments – bulk annuity insurance buy-in contract</p>	<p>The Admitted Body Sub Funds (ABSF) was established for former employers of the West Midlands Integrated Transport Authority Pension Fund (ITA Pension Fund), West Midlands Transport Limited (WMTL) and Preston Bus (PB) as part of the merger of the ITA Pension Fund and the main West Midlands Pension Fund in 2019/20.</p> <p>Within the ABSF, one of the largest assets is a bulk annuity insurance buy-in contract that was originally put in place in 2012/13 as part of the ITA Pension Fund's risk strategy. This cover underwrites the risk of meeting the future liabilities relating to West Midlands Travel Ltd pensioners on the payroll at 11 August 2011 in return for a one-off premium. This 'buy-in' is no longer material but the balance is highly subjective due to a lack of observable inputs. In order to determine the value, management engage their Actuary, Hymans Robertson, as an external expert to determine the value.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>- update our understanding of the processes and controls put in place by management to ensure that the disclosure is not materially misstated and evaluate the design of the associated controls</li> <li>- evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>- assess the accuracy and completeness of the information provided by the Pension Fund to the actuary to estimate the asset</li> <li>- assess the competence, capabilities and objectivity of the actuary who carried out the bulk annuity insurance buy-in contract valuation</li> <li>- test the consistency of the bulk annuity insurance buy-in contract disclosures in the notes to the pension fund statements with the actuarial report from the actuary</li> <li>- undertake procedures to confirm the reasonableness of the actuarial assumptions used by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> </ul>

# 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 2023/24 financial statements, consider and decide upon any objections received in relation to the 2023/24 financial statements;
  - Issue of a report in the public interest or written recommendations to the Pension 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 Pension 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.



# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	<p><b>Determination</b></p> <p>We have determined financial statement materiality by applying a reasonable measurement percentage to an appropriate benchmark. Materiality at the planning stage of our audit is £191.6m, which equates to 0.98% of your gross investment assets as at 30 September 2023. Performance materiality and clearly trivial have been set at 70% and 5% of headline materiality</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;</li> <li>– assist in establishing the scope of our audit engagement and audit tests;</li> <li>– determine sample sizes; and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements.</li> </ul>
2	<p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required. We have determined a lower specific planning materiality for the Fund Account of £65.1m (PY £65.55m), which equates to 7.5% of extrapolated gross expenditure on the Fund Account. The lower specific materiality for the Fund Account will be applied to the audit of all Fund Account transactions, except for investment transactions, for which materiality for the financial statements as a whole will be applied. For the Fund Account, performance materiality has been set at 65% of headline materiality.</p> <p>In July 2023, a new pensions administration system was implemented and as benefits payable are derived from this system, we have determined a lower specific materiality of £36.2m (5% of extrapolated benefits payable) and a performance materiality of £27.2m (75% of headline materiality).</p>

# Our approach to materiality

Matter	Description	Planned audit procedures
3	<p><b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>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.</p>
4	<p><b>Other communications relating to materiality we will report to the Pensions Committee</b></p> <p>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 Pensions 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.</p>	<p>We will report to the Pensions Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>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 £9.58m (PY £9.475m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pensions Committee and Audit &amp; Risk Committee to assist it in fulfilling its governance responsibilities.</p>



# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

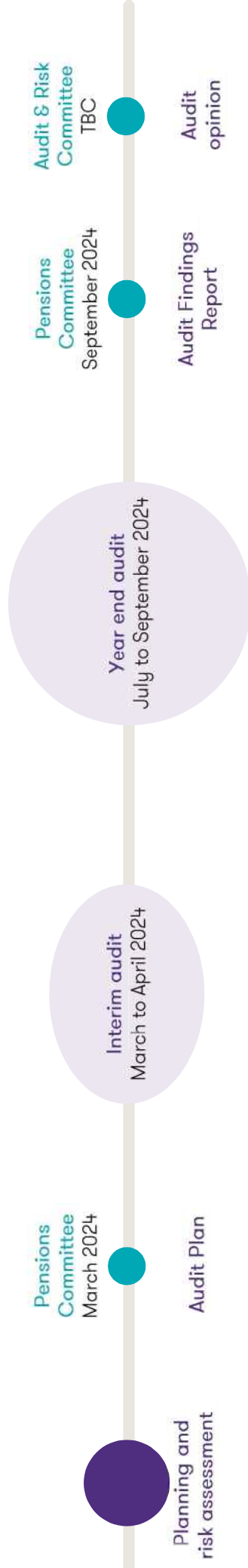
IT system	Audit area	Planned level IT audit assessment
Business World	Financial reporting	<ul style="list-style-type: none"> <li>Roll-forward ITGC assessment including assessment of the design and implementation of ITGCs.</li> </ul>
Compendia	Benefits payable and member data (new system)	<ul style="list-style-type: none"> <li>Detailed ITGC assessment including assessment of the design and implementation of ITGCs.</li> </ul>
Universal Pensions Management	Benefits payable and member data (old system)	<ul style="list-style-type: none"> <li>Roll-forward ITGC assessment including assessment of the design and implementation of ITGCs.</li> </ul>
Icon and Private-I	Investments	<ul style="list-style-type: none"> <li>Detailed ITGC assessment including assessment of the design and implementation of ITGCs.</li> </ul>

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In addition, due to the significant changes during the period, specifically the new system implementation, additional audit procedures will be completed to address the additional risks of material misstatement identified.

IT system	Event	Relevant risks	Planned IT audit procedures
Compendia	New system implementation	The risk that information between the old and new system was not accurately and completely transferred.	<p>We will engage our IT audit specialists to:</p> <ul style="list-style-type: none"> <li>perform a detailed ITGC assessment (for information, IT general controls are controls implemented within the IT environment to mitigate risks from the use of IT)</li> <li>review system implementation</li> <li>review data migration</li> </ul>

# Audit logistics and team



## Ben Stevenson, Audit Incharge

Key audit contact responsible for the day to day management and delivery of the audit work.

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## Keith Chaisewa, Audit Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

## Mark Stocks, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

## Audited Entity 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

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

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes and the Annual Report
- 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 cleansed, are made 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 logistics and team (continued)

## Our commitment to the Pension Fund

To ensure a good working relationship with the Pension Fund which includes delivery of the audit within agreed timescales, we make the following commitments:

- to provide required reporting (of a good quality) in line with agreed timelines;
- to be clear and accurate in the information requests using prior year knowledge to inform these requests;
- to respond promptly and adequately to client queries; and
- to ensure that all appropriate staff are available throughout the planned period of the audit (or as otherwise agreed).



# Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for West Midlands Pension Fund to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £146,945. The contract excludes the costs of work of experts and ISA315. We are also able to vary the fee for additional audit work and risks, for example, the implementation of new IT systems. The final proposed fee for the audit is £193,195. Details are provided on the next page.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor’s annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

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Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

## Assumptions

In setting these 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
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

## Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

# Audit fees

Proposed fee 2023/24

Scale Fee		£146,945
Appointment of IT audit specialists – implementation of new pensions administration system		£10,000
Appointment of auditor's expert – directly held property*		£10,000
Implementation of new pensions administration system – additional testing re reduced materiality on benefit payments, and additional review re delays in processing member benefits for new retirements and admitted body pension data submission issues		£7,500
Appointment of auditor's expert – derivatives and investments valued using the discounted cash flow technique		£3,750
ISA 315**		£15,000
<b>Total audit fees (excluding VAT)</b>		<b>£193,195</b>

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\*Final fee will depend on the invoice received from the auditor's expert for work performed over directly held property.

\*\*This is an estimate which will be adjusted based on the final hours charged.

## Previous year

In 2022/23 the scale fee set by PSAA was £45,248.

## Relevant professional standards

In preparing our fees, 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 we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

## Other services

No other services provided by Grant Thornton were identified.



# Communicated with those charged with governance

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•



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# Informing the audit risk assessment for West Midlands Pension Fund 2023/24



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.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between West Midlands Pension Fund's external auditors and West Midlands Pension Fund'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 fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, 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 Pension Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>With the timing of the triennial cycle of contribution levels are expected to be higher than in the previous year as a consequence of several larger employers paying their contributions in advance in April 2020. A new valuation cycle began in April 2023 which will lead to a change in contributions from 2023/24. As in previous years, market values drive performance based investment management costs. The Fund implemented a new Pension Administration System (Compendia) in July 23 replacing UPM.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by West Midlands Pension Fund? If so, have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>The policies are currently under review in readiness for presentation to Pensions Committee for approval in March 2024. No changes are expected.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Fund makes use of derivatives within the admitted body sub-funds. Derivatives held in the main fund closed out in September 2022.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Management are not aware of any significant transactions outside of the normal course of business.</p>



# 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? If so, what are they?	Management are not aware of any changes in circumstances that would lead to impairment of non-current assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	No, the Fund does not provide guarantee to third party contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	Management are not aware of any.
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?	Eversheds Squire Patton Boggs Trowers and Hamlin  Not working on any open litigation or contingencies from prior years agree, we are a party to shareholder litigation but not any that would see the Fund paying out, only getting in – email sent to GT confirming dated 11/1/24.

# General Enquiries of Management

Question	Management response
<p>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? If so, please provide further details</p>	<p>None have been reported. The Fund requests AAF reporting from its Fund Managers, there have been no instances reported.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>The Fund's appointed advisers are listed in its Annual Report along with a description of the nature of their relationship to the Fund.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Review of debtor balances underway to identify any potential losses. Having reviewed the standard no other areas are expected to be affected.</p>

# Fraud

## 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
<p>1. Has West Midlands Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the pension fund's risk management processes link to financial reporting?</p>	<p>The process for accounts close and budget monitoring take into account the potential risk of fraud, the Fund has adopted a Fraud Risk policy (taking into account the Cyber Strategy adopted by Committee), which requires individual ownership for the reporting of potential fraud. Quarterly finance reports are presented to the Fund's Senior Management Team, and Pensions Committee, the papers of which are available to the Internal Audit team.</p> <p>The Fund has effected its risk management framework through the introduction of operational risk maps owned individually by each service area and reviewed by the Governance and Risk team. The finance team undertake monthly review of their risk map reporting quarterly to Governance. Risks are collated into the organisational risk presented to Committee and Board on a quarterly basis.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Fund has determined that potential fraud by or against pension fund members to be the areas most at risk both in terms of identity and pension scams encouraging members to transfer out to scam schemes. The Fund is a signatory to the Pensions Regulatory Scam pledge.</p>
<p>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 2022? If so, please provide details</p>	<p>There is the potential for fraudulent claims for monies paid from or due to the Fund in relation to suppliers and investment transactions. However, this is considered low risk in consideration of the operational controls in place.</p> <p>No.</p>

# Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>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 training was provided in October 2021 to the Fund's Governing Bodies on the Fund's approach to reporting and monitoring risks presented in the strategic risk register and is included in the annual training program for Governing Body members.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>6. Do you have any concerns there are areas that are at risk of fraud?</p>	<p>Examples of potential opportunity for fraud are included in the Fund's fraud risk policy. On a quarterly basis the Fund reports to Committee and Board its compliance monitoring and includes by exception any instances of fraud. No instance of fraud have been reported this year.</p> <p>The Fund continues to enhance its processes for monitoring fraud risk on transfer out and grant payments. The Fund has signed up to the Pension Regulator's pledge on scams to support this work together with its Cyber Risk Strategy. In line with these adopted strategies, the Fund is undertaking a review of duties and processes to enhance payment authorisation processes including those for investment transactions.</p>
<p>Are there particular locations within West Midlands Pension Fund where fraud is more likely to occur?</p>	<p>The Fund is aware of potential scam transfer out schemes seeking to scam members of their pension, additional controls have been put in place in response to the requirements of the pensions act 2020.</p>



# Fraud risk assessment

Question	Management response
<p>6. What processes do West Midlands Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>The Fund's Governance Team monitor instances of potential fraud through its monitoring of safeguarding, data protection and transfer out requests (where individuals are seeking recourse due to lost pension).</p> <p>All employees have been provided with training on data protection, safeguarding, and cyber security and are alert to potential instances of fraud. The Fund has implemented a reporting line to Governance who undertake formal investigation of instances and report them as appropriate to relevant bodies.</p> <p>In addition to the above outlined actions on transfer outs, and in relation to pensioner payroll, the Fund undertakes monthly mortality screening with a third-party provider and participates in the biennial National Fraud Initiative scheme. Any queries identified are investigated and resolved. Together with increase controls on transfer out noted above.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for West Midlands Pension Fund, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>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)? If so, please provide details</p>	<p>The Fund has an outline internal controls framework noting the 3 lines of defence model and how it applies to the Fund. The above references to enhancements in the protection of fraud risk, outline the enhancements made to line 1 processes, the Fund works with internal audit (as line 3) to review changes to processes or service developments seeking additional assurance on the changes and improvements made.</p> <p>The Fund has reviewed its internal delegations to senior officers with limits and controls on level of authority and sign off to provide separation of responsibilities from decision makers to consultees.</p> <p>The Fund has adopted a conflicts of interest policy for its Governing Body members and in anticipating of further guidance from the Scheme Advisory Board (SAB) for the LGPS, to the requirements of the policy arising from the SAB's good governance review, has implemented an officer conflicts of interest and inside information policy.</p> <p>The Fund's risk management process identifies actions and controls in the mitigation of risk.</p> <p>No areas are identified as having inappropriate influence over financial reporting processes or override of controls.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>As outlined above, the Fund has a controlled process for the reporting and preparation of financial statements.</p>

# Fraud risk assessment

Question	Management response
<p>9. How does West Midlands Pension Fund communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>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. The Fund has implemented a local framework which seeks to enhance the CWC policies in response to the Scheme Advisory Board recommendation to have a conflicts of interest policy for officers of the Fund.</p> <p>Employees 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. The Fund has also provided bespoke training to front line officers regarding financial vulnerability and financial abuse to support awareness of potential fraud against members.</p> <p>As part of annual compliance training and new employee inductions, all employees are provided with information regarding their duties as an employee, including their responsibilities on data protection and safeguarding and to highlight any concerns.</p> <p>None have been reported this year.</p>

# Fraud risk assessment

Question	Management response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk posts are identified as those with access to financial systems and with responsibility for authorising payments. A staff structure chart has been provided. The holders of high-risk posts (responsible for authorising payments) are Chris Manning (Head of Finance), Paul Todman (Deputy Head of Finance) and Julie Gibson (Finance Manager).</p> <p>In addition, the Council identifies roles which have the potential to influence or shape decisions, those posts are designated politically restricted, in addition, all roles above heads of service are required to complete an annual declaration of interest.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Fund adheres to procurement rules and procedures in relation to the award of contracts and payments. The process requires suppliers to identify relationships with Council employees or Councillors. In addition, employee contracts require individuals to notify of any conflicts of interest which may arise in procurement. The Head of Governance keeps a record of personal interests of employees as part of the officer conflicts of interest policy.</p> <p>All suppliers are named in the Fund's annual accounts</p>



# Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Pensions Committee?</p> <p>How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Fund partakes in the National Fraud Initiative. The mortality screening of members is an element of this initiative as are its overseas members existence checks. The Fund links in with other LGPS Authorities through the national database to ensure there is no duplication of benefit payments.</p> <p>The Fund has updated and reviewed its fraud risk policies in light of the above stated enhancements and following the adoption of the cyber risk strategy.</p> <p>The Fund's Governing Bodies receive annual training on the Fund's risk management approach (the latest in October 2021). They receive a report each quarter on the risk activity and management together with quarterly compliance reporting on statutory compliance. The Fund reports to Governing Bodies on a quarterly basis its compliance monitoring activity.</p> <p>The Fund's Governing Bodies have raised no concern on the process for managing risk.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Management are not aware of any whistle blowing complaints in relation to the Pension Fund.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None.</p>

# Law and regulations

## 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 body is in compliance with laws and regulations. Where we become aware 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
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does West Midlands Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>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?</p>	<p>The Fund's Governance team support service areas through relevant internal committees in the monitoring and assessment of change management and regulatory implementation.</p> <p>Regular training is delivered to the Fund's governing bodies (training hours are recorded in the annual report) hosted by external experts on relevant topics.</p> <p>The Internal Audit support in assessing at the 3<sup>rd</sup> line the Fund's compliance both with statutory requirements and best practice, compliance report by exception to senior management and committee on any breaches (including non-compliance with statutory deadlines such as FOI).</p> <p>None.</p>
<p>2. How is the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>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.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>There has been no known instance of non-compliance or suspected non-compliance with laws and regulations.</p> <p>However, the Fund has taken the decision to self-report to the Pensions Regulator for the production of Annual Benefit Statements for 2023. Under Regulation 89 (1) and (2) an administering authority must issue an Annual Benefit Statement to each of its active, deferred, pension and pension credit members no later than 5 months after the end of the scheme year to which it relates (31<sup>st</sup> August). Unfortunately, West Midlands Pension Fund was unable to issue benefit statements to (15%) of its active members by 31<sup>st</sup> August 2023.</p>

# Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	None known.
5. What arrangements does West Midlands Pension Fund have in place to identify, evaluate and account for litigation or claims?	All litigation claims are presented to the Fund's Head of Governance (Solicitor) for review and consideration, where required external advice may be sought or the issue may be discussed with the Council's insurance advisors. The Head of Governance, has regular 1-2-1 sessions with the Council's Monitoring Officer to inform of any claims and the action taken.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None

# Related Parties

## Matters in relation to Related Parties

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

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by West Midlands Pension Fund;
- associates;
- joint ventures;
- a body 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 body that is a related party of the pension fund.

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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 pension fund'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
<p>1. Have there been any changes in the related parties including those disclosed in West Midlands Pension Fund's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"><li>• the nature of the relationship between these related parties and West Midlands Pension Fund</li><li>• whether West Midlands Pension Fund has entered into or plans to enter into any transactions with these related parties</li><li>• the type and purpose of these transactions</li></ul>	<p>The Fund requires all pension committee members (including trade union observers) together with local pension board members to undertake an annual declaration of interest including the requirement to inform where an interest arises during the year.</p> <p>For governing body members, membership of the pension fund is not considered to be a disclosable interest.</p>
<p>2. What controls does West Midlands Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Fund adheres to procurement rules and procedures in relation to the award of contracts and payments. The process requires suppliers to identify relationships with Council employees or Councillors.</p> <p>In addition, employee contracts require individuals to notify of any conflicts of interest which may arise in procurement. As outlined above, the Head of Governance keeps a record of personal interests of relevant employees in line with the Fund's adopted conflicts of interest policy.</p>

# Related Parties

Question	Management response
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Fund has adopted contract procedure rules which require 2 signatories on supplier contracts over a set limit. Where contracts are in place an annual audit has been undertaken to monitor spend against approved amounts.</p> <p>The Fund has adopted authorisation processes including those to commit payments, these are kept under review.</p>
<p>74. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Fund has adopted financial limits and contract procedure rules which require 2 signatories on contracts relating to significant transactions, preventing the approval of payments by one individual. Where contracts are in place an annual audit has been undertaken to monitor spend against approved amounts.</p> <p>Formal authorisation processes are in place to approve large payments and these are typically recorded through decision notices and/or minutes at senior management or sub-committee meetings. Approvals required outside of this process are confirmed by email exchange between authorised persons.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by West Midlands Pension Fund will no longer continue?</p>	<p>Ongoing engagement by Senior Management with scheme bodies e.g. DLUHC would identify any changes to the provision of LGPS. Similarly, engagement with sector partners e.g. LGPS Central and scheme actuaries will support the Fund in identifying any potential changes to the scheme.</p>
<p>2. Are management aware of any factors which may mean for West Midlands Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Management are not aware of any factors affecting service continuity.</p>
<p>3. With regard to the statutory services currently provided by West Midlands Pension Fund, does West Midlands Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for West Midlands Pension Fund to cease to exist?</p>	<p>Yes. There is no uncertainty over the continuation of the LGPS (Local Government Pension Scheme) at a national level, with the majority of bodies within the Scheme having a statutory responsibility to be enrolled within the scheme.</p>
<p>4. Are management satisfied that the financial reporting framework permits West Midlands Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;

The body's information system as it relates to accounting estimates;

The body'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 relevant accounting standards and industry 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 address risks relating to accounting estimates?	The Fund's risk management process includes the creation and management of risk maps by individual heads of service, the Head of Finance is responsible for the financial risk map. The Pension Fund's Accounting Policies are disclosed in the annual report and accounts and covers areas of accounting estimates. The accounting policies are formally adopted by the Pensions Committee each year.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The Fund regularly reviews appropriate guidance (CIPFA) and best practice in the assessment of methods and processes used together with any enhancements which support its accounting responsibilities. Accounting reports are presented on an annual basis to Senior Management with subject experts called where required.
4. How do management review the outcomes of previous accounting estimates?	Accounting estimates are made in line with IASs/IFRSs and Generally Acceptable Accounting Practices. When the actual year end external assessments are received management compares them to the respective historical valuation estimates. Variances are analysed with a view to improving the estimation process.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No changes made.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The Fund's Head of Finance is also the Deputy S151 officer which requires relevant knowledge and experience to identify any needs. The Fund appoints specialist advisors where required.</p>
<p>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?</p>	<p>The Fund documents its methodology for accounting estimates with the accounting policies presented to Pensions Committee for approval each year in March. There is a routine review of specialist advisors who support in the accounting estimates (asset valuations in particular).</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>In addition to the reporting to Pensions Committee, the Fund's statement of accounts are presented to the Council's Audit and Risk Committee before being signed off by the S151 officer.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>As outlined above, the Fund reports to senior managers, Pensions Committee and the council's Audit and Risk committee.</p> <p>The internal audit team include a relevant area of finance accounting on their internal audit plan each year.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any 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)? If so, what are they?</p>	<p>Management is not aware of any such transactions, events or conditions.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Estimates are consistent year on year and reflect standard industry practice. No known changes to accounting standards that would impact on the estimates approach adopted.</p>
<p>12. How is the Pensions Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>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.</p>

## 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.	Scheme actuary	As disclosed in the actuary's report. Assumptions and illustrations of sensitivity to these are included to demonstrate where judgement is applied is relation to the rate at which inflation and pension benefits are projected to increase, 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	Asset values are adjusted for cashflows generated by the underlying assets, leading to distributions to or payments from the Fund.	No



## 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?
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 or benefits accrued 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 may be 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 2024.	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

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 may be 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	Not applicable	No
Provisions for liabilities	Accruals would be made in the year-end financial statements. No provisions are expected for 2023/24.	Not applicable.	No	Not applicable	No

## 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?
Non-Adjusting events – 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	Not applicable	No
External Investment Management Expenses (Costs)	Collection of CTI information/returns from investment managers followed by a cascade mechanism (previously shared) where CTI information not received in time to complete the accounts.	Breakdown provided by CEM Benchmarking on source of cost information and where estimates have been applied.  Review and challenge of workings against known amounts and contract rates take place by WMPF.	Yes – CEM Benchmarking	Low degree of uncertainty.	No

## 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?
Level 2 investments	Fair valuation of assets in line with accounting standards, GAAP and industry practice.	Reliance on the work of experts including independent auditor.	Investment Manager	Not applicable	No
Level 3 investments	Fair valuation of assets in line with accounting standards, GAAP and industry practice.	Reliance on the work of experts.	Investment Manager	Not applicable	No
Fair value estimates	Assets and liabilities are recorded at fair values in line with relevant IFRSs	As above	Yes, where applicable	Not applicable	No



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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 23 April 2024
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<b>Report title</b>	Internal Audit Annual Plan	
<b>Originating service</b>	Pensions Services	
<b>Accountable employee</b>	Ian Cotterill Email	Head of Internal Audit <a href="mailto:Ian.Cotterill@wolverhampton.gov.uk">Ian.Cotterill@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendation for noting:**

The Pensions Board is recommended to note the approval by Pensions Committee on 20 March 2024 of:

1. The Internal Audit Plan for 2024 – 2025.

## **1.0 Purpose**

1.1 To provide the Board with the outline work programme for internal audit during 2024 – 2025.

## **2.0 Background**

2.1 The role of internal audit is to provide the Executive 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 2024 - 2025**

3.1 The plan has been developed taking into account the changing regulatory environment, planned service developments together with the Fund's latest strategic risk register.

3.2 A copy of the agreed work plan for 2024 – 2025 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 Other Implications**

7.1 There are no other implications associated with this report.

## **8.0 Schedule of Background Papers**

8.1 There are no background papers with this report.

## **9.0 Schedule of Appendices**

9.1 Appendix A - West Midlands Pension Fund Internal Audit Plan 2024 – 2025.

# West Midlands Pension Fund

## 2024 – 2025 Internal Audit Plan



1	Introduction
2	Assessing the effectiveness of risk management and governance
3	Assessing the effectiveness of the system of control
4	WMPF Corporate Plan key themes and risks
5	The framework of assurance
6	Developing an internal audit plan
7	Considerations required of the Pensions Committee and senior management
8	How the internal audit service will be delivered
9	The internal audit plan 2024/2025
10	Glossary

## 1 Introduction

- 1.1 The purpose of internal audit is to provide the Pensions Committee, Board and Executive Director 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 consider 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 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 2024-2025 financial year. This plan has been approved by Senior Management, individual audit timings and terms of reference will be agreed with the appropriate managers during the year.

## 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 Pensions Committee, Board and Executive Director. 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.

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



## 4 WMPF Corporate Plan Key Themes and Risks

Contained within WMPF’s 2023 – 2028 Corporate Plan are their key goals and ambitions which are set over the following seven thematic areas:



The following risks were reported to the Pensions Committee on 27 September 2023:

Governance/Regulatory	Operational Resilience	Value Added Servicing	Funding & Economic Environment
New regulatory change and guidance	Resourcing constraints impacting the LGPS	Maintaining pace of change and reducing impact on customers	Market volatility
Knowledge and skills requirements	Resilience in WMPF’s human capital	Ability of WMPF to meet growing customer expectations	Forecasting and model risk
Audit provision and external assurance	Resilience of WMPF’s third-party suppliers		Investment strategy
Evolving standards for governance and reporting	Cyber and disaster recovery		Employer risk

## 5 The framework of assurance

- 5.1 The framework of assurance available 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, will comprise a variety of sources and not only the work of internal audit.

### 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 assessment of each auditable area and are based on the following factors:

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

## 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. In particular, management have specifically requested that audits are linked to key risks, challenges and performance issues.
- 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 resources 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. This allocation may be increased at the request and approval of management.
  - 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 written reports and where appropriate direct feedback or action plans. 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 City of Wolverhampton Council's professional conversation 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 by the team is carried out in accordance with the Public Sector Internal Audit Standards. The team have quality assurance procedures in place to ensure conformance with the standards.

**Combined assurance**

Where appropriate we will work in conjunction with the company's external auditors 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. 2024-2025 Internal audit plan

Internal Audit Reviews		
Audit Area	Audit Contact / Timing	Details /Audit Needs Assessment
Governance: IT Systems Management Arrangements	Head of Finance Q1	Review of arrangements regarding the control and monitoring of system access, changes and deletions.
Governance: Business Continuity Plans	Head of Governance Q3	A review of revised arrangements as part of the Fund's internal control framework
Governance: Nolan Principles	Head of Governance Q2	Overall assurance that WMPF can evidence compliance with the Nolan Principles.
Governance: Risk Assessment	Head of Governance Q4	Review of the arrangements for the sign off of the year end risk assessment as part of the Pensions Regulator Code of Practice
Finance: Key Financial Controls	Head of Finance Q3	Review of key financial controls following the ongoing development of systems including the increased use of Agresso within the Fund.
Investments: Assets not under Pool Management	Asst. Director Investments Q1	Full system review of arrangements for the control of assets managed by WMPF
Pension Services: Discretionary Policies	Asst. Director Pensions Q2	Review of death grants awarded as part of discretionary policies available to the Fund.
<b>Other audit work</b>		
Follow up Reviews	To review the implementation of agreed key actions from the previous financial year	
Counter Fraud	The provision of the Cabinet Office's National Fraud Initiative data matching exercise and any other work relating to counter fraud as requested by management, including the financial appraisal checks for new organisations requesting admission to the Fund.	



LGPSC Assurance	Participation in the internal audit working group with partner fund auditors. Overall review of assurance documents provided by the Company. Completion of targeted audit work on a cyclical basis in conjunction with partner funds.
Contingency and Consultancy	Special projects, advice, and assistance as and when required.
Pensions Committee and Board	The preparation of committee reports and attendance at committee and the Board.
Management	The management of the internal audit function.

## 10. glossary of terms

### Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### Governance

The arrangements in place to ensure West Midland Pension Fund (WMPF) fulfils its overall purpose, achieves its intended outcomes for customers and operates in an economical, effective, efficient and ethical manner.

### Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the WMPF's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the WMPF and the reporting of financial management
- the performance management of the WMPF and the reporting of performance management.

### System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

### Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

### Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e. through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

### Pensions Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

### Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Internal Audit may be unable to give an assurance opinion if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the WMPF's policies, processes and controls and the second being managers' own checks of this first line.

### Internal Audit standards



The internal audit team have adopted and comply with the standards as laid out in the Public Sector Internal Audit Standards.

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 23 April 2024
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<b>Report title</b>	<b>Investment Governance</b>	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Paul Nevin Email	Assistant Director, Investment Strategy <a href="mailto:Paul.nevin@wolverhampton.gov.uk">Paul.nevin@wolverhampton.gov.uk</a>
	Shiventa Sivanesan Email	Assistant Director, Investment Management & Stewardship <a href="mailto:Shiventa.Sivanesan@wolverhampton.gov.uk">Shiventa.Sivanesan@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

**Recommendations for action:**

The Pensions Board is asked to note:

1. The update on investment governance matters including those in relation to responsible investment and the implementation of investment strategy.
2. Publication of the Fund's Responsible Investment Framework 2024 [Appendix A].



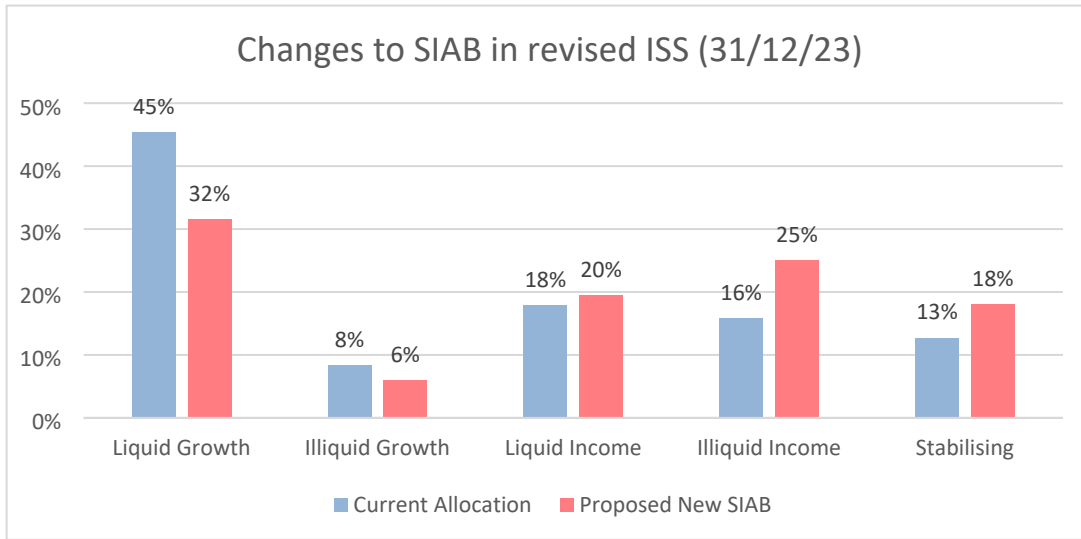
## 1.0 Purpose and Background

- 1.1 This report provides an update on investment related matters and an update on responsible investment activities, together with the ongoing development of Local Government Pension Scheme (LGPS) Central Investment Pool in context of the implementation of the Fund's investment strategy.
- 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. The pool plays a role in enabling and supporting the implementation of the Partner Fund Investment Strategies.
- 1.4 Investment products and services to Partner Funds are 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 on the client deliverables of investment pooling, together with governance and oversight of pooling arrangements.

## 2.0 Investment Strategy and Implementation

- 2.1 The Fund's Investment Advisory Panel (IAP), comprising external advisers, the Executive Director of Pensions, Assistant Director of Investment Strategy and Assistant Director of Investment Management and Stewardship, continue to review strategic asset allocation, implementation and adherence to the Fund's 2023 Investment Strategy Statement (ISS), Responsible Investment Framework and Climate Framework and Strategy including development and allocation to sub-funds as these are developed by the pool and delivery against policy ambition, taking into account the strategic fit for the Fund. The Pensions Committee is due to receive the next annual report from the IAP at the June 2024 meeting.
- 2.2 Performance of the investment portfolio to 31<sup>st</sup> December 2023 is shown in the report in the Quarterly Investment Report to Committee, which has been provided as a background paper.
- 2.3 A full review of the strategic asset allocation for the WMPF Main Fund and the two Admitted Body Separate Funds (ABSFs), was undertaken in conjunction with the respective 31<sup>st</sup> March 2022 triennial actuarial valuations. The Fund's Investment Strategy is represented by the Strategic Investment Allocation Benchmark (SIAB), which sets out how the assets are allocated between different types and classes of investments. Following the strategy review the SIAB has been updated and provided as part of the updated Investment

Strategy Statement (ISS) which was approved by Committee in March 2023. The revised allocation is shown below.



2.4 The changes to the Fund’s portfolio to implement the revised SIAB were significant. Officers worked with advisers and put in place a 3-step process spanning the period to the next triennial valuation in March 2025. A summary of the three steps is as follows:

Step	Timing	Key Themes
1	July to December 2023	<ul style="list-style-type: none"> <li>9 to 10% reduction in Liquid Growth assets with proceeds to Liquid Income and Stabilising Assets.</li> <li>Use of existing underlying asset building blocks as far as possible</li> </ul>
2	January to September 2024	<ul style="list-style-type: none"> <li>Further reduction in Liquid Growth together with implementation improvements for this building block.</li> <li>New commitments to Illiquid Income</li> </ul>
3	October 2024 to March 2025	<ul style="list-style-type: none"> <li>Final refinements and implementation</li> </ul>

2.5 The implementation of the new SIAB is going to plan and it is expected that by end April 2024 the strategic asset allocation will be broadly in line with targets.

### 3.0 Responsible Investment

3.1 The Fund continues to engage with its investee companies and other key stakeholders through the partnerships it has in place. The Fund aims to protect and increase shareholder value by engaging on a range of financially material economic, social and governance (ESG) investment factors. A significant part of the Fund’s engagement programme is implemented through partnerships including the Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes (‘EOS’ - via a contract held by LGPS Central Ltd, the Fund’s investment pool operator), the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CA 100+), the Transition Pathway Initiative (TPI), and the Principles for Responsible Investment (PRI).

3.2 The Fund's engagement activity is monitored and reported to the Pensions Committee on a quarterly basis. Engagement activity includes a number of direct company engagements, on a range of themes, voting activity and working in partnership with other institutional investors. Activity and progress are included in published reports from LGPS Central Ltd, LAPFF and EOS at Federated Hermes.

#### **4.0 Responsible Investment Framework**

4.1 The Fund's Responsible Investment Framework defines the beliefs and principles that underpin the Fund's policies, processes and responsible investment activities that it undertakes. Following an annual review of the framework changes have been made to reflect the enhancements the Fund has made to its approach of integrating responsible investment across the Fund's investment strategy. Included within the framework are the Fund's updated engagement themes for 2024-2027. The engagement themes have been selected following research and analysis from peers and industry, considering investment risk to the portfolio, and are sufficiently aligned to the themes from the Fund's core external managers including LGPS Central. The engagement themes have been recommended and discussed with the Fund's Governing Bodies at their meetings in December 2023 and January 2024, further training was also provided in March 2024 on these themes. Appendix A contains the Responsible Investment Framework, approved by the Pensions Committee at their meeting on 20 March 2024.

#### **5.0 Voting Principles**

5.1 The Fund's Voting Principles outlines the UK voting guidelines that have been developed with external managers and LGPS Central. They have been updated in tandem with LGPS Central's Voting Principles. International voting guidelines are set in line with EOS' recommendations. This review focuses on reinforcing existing policy with key updates and strengthening expectations around sustainable business practices, including companies' engagements with Nature Action 100+; company's management of climate-related risks against the Paris Accord; increased diversity at senior management and the responsiveness of company boards to engagement. A draft version of the Voting Principles can be found in Appendix B. This is expected to be finalised in May 2024 ahead of the voting season.

#### **6.0 Annual Stewardship Report**

6.1 The draft 2024 Annual Stewardship Report discloses the Fund's responsible investment and stewardship activities during the 2023 calendar year. The 2024 report has been developed taking into account feedback provided by the Financial Reporting Council (FRC) on the Fund's 2023 report and internal gap analysis to FRC's requirements. Enhancements made include a particular emphasis on the identification and management of risks, as well as articulating the Fund's initiatives in engaging with stakeholders. The section detailing customer engagement demonstrates the Fund's efforts to facilitate knowledge sharing and assess the level of interest and awareness with regards to responsible investment. The Stewardship report will be submitted to the FRC for review in May 2024. A copy of the Stewardship will be circulated to Board Members prior to the meeting.

## **7.0 LGPS Central Investment Pool Governance**

- 7.1 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).
- 7.2 The Joint Committee met on 2 February 2024. A link to the papers including the pool risk register, internal audit workplan and Company presentation is included in the background papers for this report, together with the draft minutes of the meeting. Areas of discussion included the outcomes of the LGPS investment consultation, presentation of the pool risk register, investment performance and enhancements to the pool’s responsible investment and stewardship work.
- 7.3 The Executive Director of Pensions is appointed as the Shareholder representative for the West Midlands Pension Fund, attending Company meetings and voting on resolutions on behalf of the Authority. Company resolutions focus on the business of the regulated operating Company, with reporting back to Governing Bodies and through regular consultation and briefings with the Committee Chair. More generally, Senior WMPF Officers have specific roles and touch points with the Company (Board, Executive and Investment Directors) in both Shareholder and Client capacity, recognising that the Company is the entity through which WMPF and Partner Funds will meet their strategic investment objectives and statutory duty of pooling.
- 7.4 Alongside routine matters, Shareholder and Company discussions over the last 2-3 months have considered the future direction of the pool, linked to the Partnership’s ambition and response to the outcome of the Government’s LGPS investment consultation, published in November 2023.

## **8.0 Financial Implications**

- 8.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund’s objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

## **9.0 Legal Implications**

- 9.1 The requirement to pool Fund investments is a requirement of law, failure to work collaboratively and meet the Government’s criteria for delivery may result in Government intervention.

## **10.0 Equalities Implications**

- 10.1 There are no direct equalities implications arising as a result of this report.

## **11.0 All Other Implications**

- 11.1 There are no other implications arising as a result of this report.

## **12.0 Schedule of Background Papers**

12.1 LGPS Central Joint Committee Papers:

[Meetings and Agendas | Members \(cheshirepensionfund.org\)](#)

12.2 [Quarterly Investment Report to 31 December 2023 from Pensions Committee Meeting 20 March 2024](#)

## **13.0 Schedule of Appendices**

13.1 Appendix A – Responsible Investment Framework

13.2 Appendix B – Draft Voting Principles





# RESPONSIBLE INVESTMENT FRAMEWORK

MARCH 2024



West Midlands Pension Fund

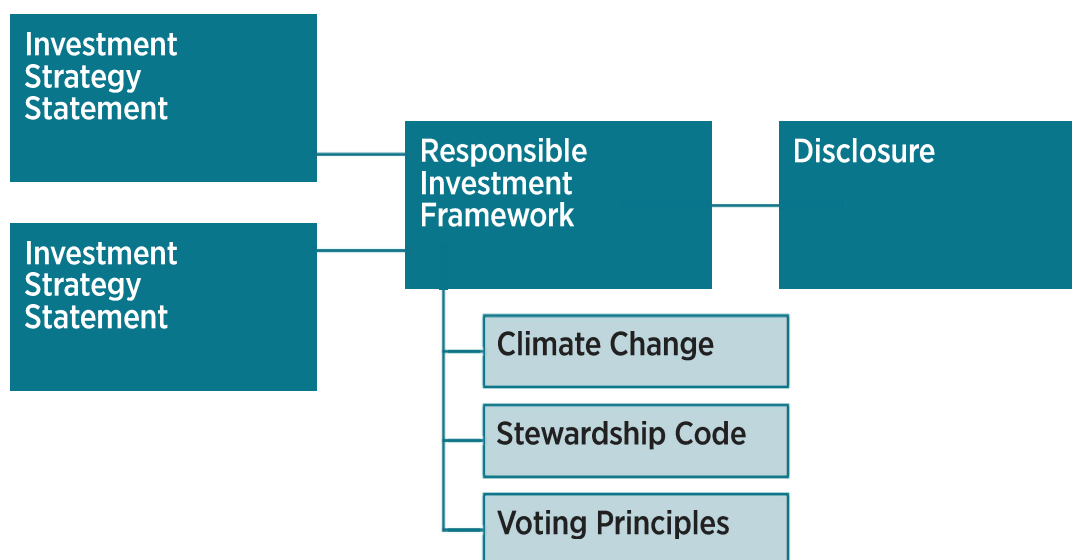
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## 1 PURPOSE

Our Responsible Investment (RI) Framework outlines our approach and commitment to RI. We consider environmental, social and governance (ESG) factors throughout our investment strategy and implementation processes. We believe that this protects and enhances the value of assets over the long-term and enables us to fulfil our fiduciary duty to pay members' pension benefits when they fall due.

We have developed our RI Framework in the context of relevant regulations, statutory guidance, and the advice of the Law Commission. It can be used to inform and used alongside our Investment Strategy Statement. It also supports the practical application of our RI reports and disclosure shown in the figure below.



Our Pensions Committee have ultimate responsibility for our investments and the development and review of all investment policies. Our Executive Director of Pensions, Assistant Director - Investment Management and Stewardship, and Assistant Director - Investment Strategy are responsible for the oversight and implementation of these policies.

We review our RI framework annually or when we need to make exceptional changes. This version is effective from March 2024 and replaces all prior versions.

## 2 BELIEFS AND GUIDING PRINCIPLES

The term “responsible investment” refers to the integration of financially material ESG factors into investment processes<sup>1</sup>. It has relevance both before and after the investment decision and is a core part of fiduciary duty. RI is distinct from “ethical investment”, which is an approach in which the moral persuasions of an organisation take primacy over investment considerations.

<sup>1</sup> As defined by the [Principles of Responsible Investment](#)

## Our Investment Beliefs

Our Statement of Investment Beliefs, set out in our Investment Strategy Statement, cover:

- **Financial market beliefs** – We adopt a long-term approach to investing as our liabilities stretch far into the future, but in doing so, we seek 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.
- **Governance beliefs** – We believe having effective governance structures and policies will enable rigorous and tested decision making and will add value to over the longer-term. Transparency and cost effectiveness provide key tenets of being a well-governed Fund.
- **Investment strategy** – Our investment strategy encompasses our approach to risk management, risk tolerance, liquidity and levels of return required to meet our strategic objectives. We set our strategic asset allocation to deliver the long-term returns required to meet our funding needs, taking into account diversification, the requirement to remain agile, risk and cost of implementation, recognising that risk should be viewed both qualitatively and quantitatively.
- **Responsible investment** – As long-term asset owners we believe that investing responsibly is key to ensuring the long-term value of the assets in which we invest are 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. We integrate responsible investment into the way we select and stewards all assets.
- **Climate change** – We adopt an evidence-based approach to climate change and believe there is overwhelming evidence to support that climate changes poses both risks and opportunities to our investments. We will consider the impact of climate change in both our asset allocation and investment process when making decisions.

## Climate Change and Biodiversity Loss

Climate change is a systemic and financially material risk that has been highlighted by the industry as the greatest risk to investments<sup>2</sup> particularly spanning into the long-term. Climate change has a significant impact on biodiversity loss, impacting natural ecosystems which are intrinsically linked to all aspects of our economy. We have developed evidenced-based beliefs relating to climate change to assist in monitoring and managing this specific area of risk and opportunity, which is outlined in more detail within the 2021 Climate Change Framework and Strategy.

As a responsible investor, we seek to proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible. Additionally, we look to benefit from potential opportunities through considering investments in climate solutions. Real-world decarbonisation of the economy is necessary to address these risks with a priority on active engagement and driving outcomes from investee companies.

No individual investor nor the investment industry is influential enough to achieve the rate of change required to avoid catastrophic consequences of climate change highlighting the importance of collaborative and collective progress required by investors, regulators, governments, and companies alike.

We are a strong supporter of the United Nations' Paris Agreement and believe that policy makers, consumers, companies, and investors have a role to play in increasing awareness and enabling a just transition through strong governance and action.

As part of our commitment to achieving net zero by 2050 or sooner we aim to continue to develop best practice strategies and solutions to support this change alongside other industry actors. Noting that climate-aware decisions will be better with accurate, relevant, complete, and comparable data, we are engaging to increase disclosure and aid development of policy instruments.

We undertake and disclose our assessment of financial risk associated with climate change inherent within the investment portfolio, in line with recommendations made by the Taskforce for Climate-related Financial Disclosure (TCFD).

### **Engagement and Collaboration**

We adopt a policy of risk monitoring and engagement to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. In scenarios in which engagement fails, an appropriate escalation methodology may be adopted. We extend this principle of "engagement for positive change" to the due diligence, appointment, and monitoring of fund managers.

We believe our effectiveness is improved by acting collectively with other like-minded investors because it increases the likelihood that we will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. We recognise the need to operate at a market-wide level to promote improvements and develop effective RI processes that will help us to deliver sustainable long-term growth.

### **Exclusions**

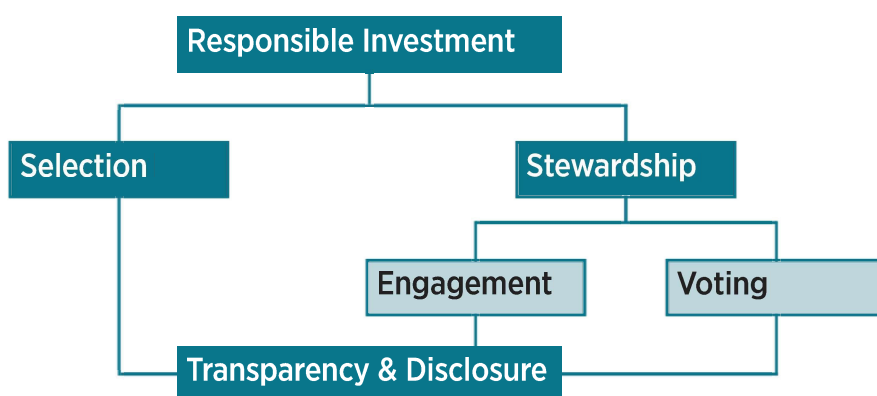
Given our approach of engaging to positively drive change, we do not apply blanket exclusions at the portfolio level. Applying such exclusions may result in more concentrated exposures and/or lead to missing out on attractive opportunities. We look to take a pragmatic approach of working with our investment providers to understand their investment approach to ensure alignment with our beliefs. There may be certain circumstances where exclusions may be applied at the underlying portfolio/manager level and these are considered on a case-by-case basis.

### **Remuneration and Cost Management**

Executive remuneration and investment management costs matter, particularly in helping in the alignment of long-term goals. Fee arrangements with fund managers and the remuneration policies of investee companies should be aligned with our long-term interests. We recognise that it is part of our fiduciary duty to ensure that there is appropriate alignment across industry-wide cost transparency initiatives and that these are pivotal in aiding greater understanding of cost to enable improved alignment and cost management.

### 3 STEWARDSHIP

We look to integrate responsible investment principles throughout our investment strategy. This is both before the investment decision – through the selection and appointment of managers, and after the investment decision through ongoing stewardship via engagement, voting and monitoring of managers and fund performance. We look for evidence of increasing use of ESG risk factors in decision making throughout the investment value chain.



We aim to be transparent to our stakeholders through regular, high-quality disclosure. Disclosures are made quarterly at Pension Committee meetings, regular updates to our website and annually through our Annual Report and Accounts, Annual Stewardship Report, and Climate-Related Financial Disclosure Report.

#### Selection

We aim 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 our pool company, LGPS Central Ltd (“LGPS Central”).

We collect the following information from each manager during the selection process, where applicable to the asset class:

- A 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.
- RI reporting format, incorporating both quantitative and qualitative risk assessment.
- Whether they are a signatory of the Principles for Responsible Investment (PRI) and FRC UK (or other) Stewardship Code.
- Fee transparency and evidence of disclosure, noting commitment to sign-up to the ‘LGPS Code of Transparency’<sup>3</sup> as a condition of appointment.



### **Appointment**

We assess the RI capability fund managers across five categories: policy, people, process, performance and transparency and collaboration. This looks at both the integration of RI and ESG in the investment process as well as assessing the manager’s corporate values, practices and beliefs.

We are willing to hire a fund manager at an early stage of developing their 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”, we believe that there is added value in working managers to develop their approach.

### **Monitoring**

Each fund manager is expected to report<sup>4</sup> to us at agreed intervals on how their RI activities are contributing to improved long-term risk-adjusted returns including the provision of climate-related metrics as stated in certain investment mandates. Additionally, we will routinely meet with our fund managers to monitor their performance and level of RI integration, in most cases on a quarterly basis.

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 our 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.

Where issues have been identified through the monitoring process this will result in increased monitoring, with the manager being notified of the areas of concern. Suitable action plans will be developed to provide an opportunity for the issue to be resolved, however, if insufficient progress is made then further action will be considered which may result in withholding or withdrawing capital from the manager.

### **Transparency and Disclosure**

We update our beneficiary members, governing bodies, and regulators on our RI activities through:

- disclosing RI policy documents publicly, e.g. Annual Responsible Investment Framework, Climate Change Framework and Strategy and Voting Principles
- providing a public summary of our RI activities, including our engagement and voting activity<sup>5</sup>, in our Annual report and Accounts and our Annual Stewardship Report

<sup>3</sup> [LGPS Scheme Advisory Board - Code of Transparency \(lgpsboard.org\)](https://www.lgpsboard.org/)

<sup>4</sup> Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

<sup>5</sup> In line with Regulation 57 of the 2013 Regulations.

- providing a public summary of our RI activities in quarterly reports to our Pensions Committee
- publishing aggregate voting and company engagement statistics on a quarterly basis; and
- disclosing our approach to managing climate change risk and progress against our net zero targets publicly in the Climate-related Financial Risk report, using the recommendations made by the Taskforce on Climate-related Financial Disclosures Framework (TCFD).

Additionally, we engage directly with our members via regular communications such as member newsletters and RI-specific leaflets as well as participating in face-to-face member events including Member Engagement Forums.

### **LGPS Central Limited**

Since April 2018, Fund assets have been transitioning 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 policies are in place together with an appointed engagement provider to support regular engagement, monitoring and reporting, as detailed in the LGPS Central Responsible Investment and Engagement Framework<sup>6</sup>, which we review on an annual basis. As part of an advisory agreement, LGPS Central provide us with ongoing monitoring of our assets held outside the pool which incorporates views on the level of RI integration undertaken by fund managers.

## **4 ENGAGEMENT**

### **Investee Companies**

Our approach includes bottom-up engagement – which targets improvements on specific issues at individual companies, predominantly through fund managers – and top-down engagement – which identifies themes of long-term economic significance and of relevance for stakeholders (see Section 5 - Engagement Themes for 2024-2027).

We will, either directly, collaboratively or through specialist service providers or fund management arrangements:

- hold constructive dialogue with investee companies;
- encourage transparency and disclosure on a range of ESG issues, for instance on climate action plans, undertaking water assessments or disclosing country-by-country tax practices to name a few, and including actions and progress on these risks and opportunities
- participate in the development of public policy on RI issues.

### **Engaging in Partnership**

We engage with our investee companies in partnership with:

- engagement providers, LGPS Central's stewardship provider or through the Local Authority Pension Fund Forum, or
- focused initiative on a specific challenge or theme, including the Rathbones Modern Slavery Engagement, Climate Action 100+ and Nature Action 100+.

We recognise that systemic risks that pertain to a sector or industry, or even the entire financial system, requires global collaboration to send strong signal to companies and industries for change, and therefore, protect the value of our investments.

More details on our membership and initiatives on page 12.

### **Shareholder Litigation**

We may be eligible to participate in certain individual and class action shareholder litigation. Shareholder 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 financial losses.

For US-based claims, our options would be:

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

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

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

- advantages and disadvantages of becoming actively involved
- relative size of our potential losses compared to other organisations
- likelihood of success; and
- whether we are fully indemnified against costs, expenses, counterclaims, and any other losses.

### **Voting**

We use our shareholder voting rights to influence and signal to companies to address material ESG issues and escalate engagements where necessary by voting against company proposals, board members and directors of the company. Equally, voting can set the tone of future company engagement and dialogue with an investee company. Our Voting Principles outline our approach and the key considerations when we take when exercising our voting rights. Our Voting Principles are reviewed on an annual basis and have been developed in conjunction with LGPS Central and through dialogue with our equity managers.

Our voting rights are executed by LGPS Central, and their appointed engagement provider, EOS at Federated Hermes. Our voting recommendations are input into the Institutional Shareholder Services (ISS) platform and are cast if there is no further intervention, except in the case of share-blocking votes. We take a pragmatic approach to ensure efficiency towards the voting process, alignment to our beliefs and to maximise our voting rights.

In instances where LGPS Central have core engagements or significant holdings, a “Voting Watch List” of approximately 50 companies is established to enable scrutiny ahead of a company’s Annual General Meeting (AGM). This is shared with EOS, who provides detailed analysis to substantiate their voting recommendations and provide an opportunity for discussion before the vote where necessary. This priority list of companies provides a layer of assurance to ensure our Voting Principles are executed accurately.

We have an active security lending programme, therefore trading restrictions are placed on certain securities during the voting season to maximise voting impact and emphasise shareholder concerns during engagement. A targeted approach is adopted to balance the cost implications against the voting benefits to high-risk companies identified through our climate risk reporting and/or Climate Action 100+ engagements. These restrictions are lifted after the AGM season.

### **Policy Advocacy**

To address the global challenges and initiate change, collaboration is required from all stakeholders, such as public policy makers, regulators, trade bodies and other players in the financial markets. These global challenges present risks and obstacles that affect the way we invest and uphold our duty to pension members and fall within our fiduciary responsibilities. Therefore, with other like-minded investors, we may engage with these bodies in policy advocacy, developing regulations or signing investor letters and statements. We consider these initiatives on a case-by-case basis.

## **5 ENGAGEMENT THEMES FOR 2024-2027**

We use engagement themes to highlight and prioritise material investment risks within our portfolio and the wider investment industry. These risks are so prevalent in scale and importance they often require global collaborative action.

For 2024 – 2027 we have revised our engagement themes based on the materiality of our investments, industry direction and action, and broad alignment with LGPS Central, our stewardship providers and asset managers.

### **Climate Change and the Net Zero Transition**

Integrated into our investment beliefs, there is overwhelming evidence of the risks and opportunities that climate change presents to our investments. We believe that the scale of the impact of climate change is such that a proactive and precautionary approach is needed to manage climate risks and opportunities through integration within our investment strategy and our commitment to achieve net zero by 2050. Our approach, including identification, assessment and management of climate-related risks is detailed in a standalone policy and climate-related financial disclosures report.

We have a proactive programme of climate change stewardship, primarily leveraging our strategic partnerships and through our support of the Transition Pathway Initiative, Climate Action 100+ , and the Institutional Investor Group on Climate Change.

### **Resource Efficiency and the Circular Economy**

Resource efficiency is increasingly important given the continued increase in demand for materials and resources. Natural ecosystems are intrinsically linked to all aspects of our economy from the supply of raw materials for consumer goods, providing and sustaining global food systems, to acting as carbon sinks to prevent disastrous effects of climate change. There is a strong need to integrate and address nature-related risk and transition towards a circular economy to mitigate the increasing loss of biodiversity, increasing impacts of climate-related disasters and fragility of the world's global food system. We will look to partner and engage through our engagement providers and collaborations to actively promote resource efficiency and push towards a circular economy.

### **Social Equality**

Human beings are pivotal in our companies, our societies, and therefore our global economies. Ensuring that people's needs are met, not only is a financial necessity and linked to higher financial returns but demonstrates a company's strength and ability to invest into their workforce, consider the social impacts of their products on consumers and create positive impact to the communities they serve. We aim to consider various social factors during the investment process, not limited to Equality Diversity and Inclusion (EDI), human rights, working conditions, product safety, supply chain transparency and more. We will continue to address these issues through the research, analysis and engagements conducted by all engagement partners including LAPFF and LGPS Central.

### **Forward-Thinking Governance**

Strong governance forms the foundation of a business, in the way that the company sets targets and ambitions, the identification and management of business-related risks and the efficiency and productivity of their operations. Change, driven through engagement with companies, is more effectively driven in companies with the effective governance structures and personnel in place to enact those changes. We continue to identify and engage on a wide range of governance issues including but not limited to the composition of a company's Board, shareholder risks, remuneration practices, data security risks, responsible tax behaviour and cyber and technology risk including areas such as misinformation and the use of AI.

## 6 MEMBERSHIPS AND PARTNERSHIPS

Memberships are reviewed on a regular basis.

Organisation/Initiative Name	About the Organisation/Initiative Name
<b>Local Authority Pension Fund Forum (LAPFF)</b>	<p>We are a founding member of the LAPFF and our Executive Director of Pensions is currently LAPFF's Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 87 local authority pension funds and seven investment pools from across the country with combined assets of around £350 billion. We are an active participant in LAPFF's engagement programs. Membership of LAPFF provides us with:</p> <ul style="list-style-type: none"> <li>• independent research and advice on the RI risks of companies to inform further stakeholder engagement;</li> <li>• advice on the governance practices of companies; and</li> <li>• a forum to engage with companies to improve governance practices.</li> </ul>
<b>Institutional Investors Group on Climate Change (IIGCC)</b>	<p>We are a member of the IIGCC, which is an influential asset owner and asset manager membership body and the largest one focusing specifically on climate change. IIGCC helps define the investment practices, policies and corporate behaviours required to address climate change.</p>
<b>Climate Action 100+</b>	<p>We are a member of CA100+ - an engagement collaboration of more than 700 investors with a combined \$68 trillion assets under management. CA100+ engages 170 companies on climate risk that are considered high emitters and contribute the most to global industrial greenhouse gas emissions.</p>
<b>Transition Pathway Initiative (TPI)</b>	<p>The TPI is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy.</p> <p>Through LGPS Central we support the TPI Global Climate Transition Centre, an independent source of research and data into the progress being made to transition to a low-carbon economy, created for the global investor community and supported by collective \$60trn AUM.</p>



Organisation/Initiative Name	About the Organisation/Initiative Name
<b>Principles for Responsible Investment (PRI)</b>	PRI is the largest RI-related organisation globally, and helps with research, policy influence and collaborative engagement. We have been a signatory of the PRI since 2010 and have continued to be assessed annually on the quality of our RI activities against PRI's requirements and assessments. In our 2023 assessment, we achieved 4 to 5 stars and exceeded the median scores across all relevant categories.
<b>UK Stewardship Code 2020</b>	We have been a signatory to the UK Stewardship Code since 2021, achieving signatory status at the earliest opportunity. The Code sets high stewardship standards for pension funds including the annual assessment of our Annual Stewardship Report.
<b>Paris Aligned Asset Owners Initiative (PAII)</b>	We are a signatory to the PAAO which is a collaborative investor-led global group made up of 56 asset owners with over \$3.3tn in assets. The PAAO supports investors align portfolios to the goals of the Paris Agreement and has set out its reporting requirements on a comply-or-explain basis to facilitate disclosure and transparency on our net zero transition journey.
<b>Asset Owner Diversity Charter (AODC)</b>	We are a founding member of the AODC which looks to formalise a set of actions for asset owners to commit to in order to improve diversity across the investment industry. The AODC has set out a standardised framework for asset owners to assess their managers in terms of diversity and inclusion.

## 7 APPENDIX: GLOSSARY OF TERMS

### **Biodiversity**

Is a measure of variation at the genetic, species and ecosystem level. High biodiversity supports a healthy ecosystem that both the human and economic systems are dependent on.

### **Circular Economy**

The model of production and consumption whereby there is a continuous reuse and regeneration of material or products, including the production of goods in a sustainable and/or environmentally friendly way.

### **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.

### **Governance**

The process and principles by which a company or organisation undertakes their business. This includes how we undertake both our operational and investment responsibilities on behalf of our members<sup>7</sup>.

### **Net Zero**

Refers to equilibrium of greenhouse gas emissions being released and extracted out of the atmosphere to zero.

### **Paris Agreement or Paris Accord**

The Paris Agreement is a legally binding treaty on climate change with a goal on holding “the increase of global average temperatures well below 2°C above pre-industrial levels” and “to limit the temperature increase to 1.5°C above pre-industrial levels.”

### **Responsible Investment**

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

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

Investments that deliver measurable, social benefits as well as a financial return are often described as “social investments”.

We consider opportunities in social investments alongside other opportunities and will assess their relative merits on fundamental grounds and with reference to suitability of fit.

<sup>7</sup> Detail of the Fund’s governance arrangements including for investments, and definition of its governing bodies are detailed in the [Investment Strategy Statement 2023](#)

**Stewardship**

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

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

West Midlands Pension Fund  
PO Box 3948  
Wolverhampton  
WV1 1XP



# WEST MIDLANDS PENSION FUND VOTING PRINCIPLES

MARCH 2024



West Midlands Pension Fund

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## 1 INTRODUCTION TO WMPF'S VOTING PRINCIPLES

### 1.1 About this Document

This document describes West Midlands Pension Fund's ("we/our") approach to exercising our voting rights at the shareholder meetings of companies we are invested in who are based in the UK.

For voting rights associated with non-UK companies, we currently apply the international voting principles of the stewardship provider appointed by our investment pool company, LGPS Central Limited (herein referred to as "LGPS Central").

The Voting Principles apply to those assets where we hold voting rights. Where voting rights are executed by external managers on our behalf (for instance, in pooled mandates, including those operated by LGPS Central, or where we have delegated authority) we have reviewed and are satisfied with the voting policies of those managers.

This document is owned by the Fund's Internal Investment Committee, with oversight from our Pensions Committee. It is reviewed on an annual basis.

### 1.2 Responsible Investment and Voting at WMPF

Our Responsible Investment Framework details our approach to integrating environmental, social and governance (ESG) considerations into our investment strategy. It informs and is supplementary to our Investment Strategy Statement, aligning with our investment beliefs and fiduciary duty.

A three-pillar framework supports these aims. The pillars are Selection, Stewardship, and Transparency & Disclosure. In line with the UK Stewardship Code, voting is a core component of our approach to investment stewardship.

## 2 CORPORATE GOVERNANCE, STEWARDSHIP AND VOTING IN THE UK

We use our voting rights to support the long-term economic interests of our stakeholders, by ensuring that investee companies are accountable and provide robust disclosure on how business risks and opportunities are successfully managed and capitalised.

### 2.1 UK Corporate Governance Code

We support the UK Corporate Governance Code<sup>1</sup> ("the Code") and believe that strong standards of corporate governance translate ultimately into healthy and stable financial markets. UK companies are expected to adhere to the Code and to provide high quality disclosure on the extent of compliance with the Code in their Annual Report and Accounts. In the case of diversions from the Code, we expect transparent and thorough disclosure.

The Code stipulates that companies should comply with the Code or explain reasons why they do not comply. Rather than reiterate the principles and provisions of the Code, this document focuses on matters most important to us.

For smaller companies and investments trusts that are at different stages with respect to corporate governance arrangements, our expectations for these companies reflect the maturity of the company. Nonetheless, we expect that the Code, the Wates Principles<sup>2</sup>, and the Association of Investment Companies Code of Corporate Governance<sup>3</sup> are considered as standards of good practice when engaging with shareholders and seeking their approval at company meetings.

<sup>1</sup>[UK Corporate Governance Code \(frc.org.uk\)](https://www.frc.org.uk)

<sup>2</sup>[The Wates Corporate Governance Principles for Large Private Companies \(frc.org.uk\)](https://www.frc.org.uk)

<sup>3</sup>[AIC Code of Corporate Governance | The AIC](https://www.aic.org.uk)

## 2.2 Stewardship and Voting

Voting is linked to engagement, and the votes we cast at company meetings may reflect the outcomes of engagement activities during the year in review. Equally, a voting decision can set the tone for subsequent engagement.

Our intention is that our voting decisions do not come as a surprise to our investee companies, but they are a by-product of dialogue. Where we take the decision to not support a resolution, either by abstaining or voting against, this should be interpreted by the boards of companies as an expression of dissatisfaction in how companies are managing a material issue for their business and indicate an investment concern for us.

In limited circumstances, we may make use of “abstain votes.” This is likely to occur when we note companies’ progress in managing risks deemed material for our investment, but the approach is not yet deemed adequate to meet good practices. To send a strong signal, we make a limited, tactical use of abstain.

## 2.3 Market Transformation

We recognise our role as a large, long-term asset owner with investments diversified across a range of geography, sector, and market instruments. We have an interest in improving the standards of corporate governance within financial markets and promoting good practices among companies and throughout the market.

Where certain standards or targets set minimum expectations (for example in matters relating to the diversity of company boards) we will consider voting beyond the minimum (for example by requiring a faster rate of progress on diversity within company boards).

We partner with organisations that share our commitment to the adoption of best stewardship practices (e.g., the Local Authority Pension Fund Forum and the Institutional Investors Group on Climate Change) and believe that involvement in partnerships can support and foster a stable and healthy market needed to undertake our fiduciary duty to our members.

## 2.4 Voting Procedures

We use the appointed stewardship provider of LGPS Central to analyse and provide advice relating to the Fund’s voting opportunities, consistent with our policies. The guidelines below may be overridden where this is deemed to be in the long-term economic interests of our stakeholders. Where issues are insufficiently addressed by the Code or the principles in this document, a decision will be made using research and the advice of our appointed advisers and research provider.

Our voting decisions are arrived at through a collegiate approach, incorporating the views of our Fund officers as appropriate, LGPS Central’s Responsible Investment and Engagement (“RI&E”) Team and stewardship provider, and asset managers as appropriate for the company in question.

### 2.4.1 Securities Lending

We have an active securities lending programme to ensure that we can vote on all of our shares at important meetings, we may restrict lending for certain stocks and recall shares in advance of shareholder votes. On our behalf, ahead of voting season LGPS Central will identify a selection of companies within its priority engagement universe, to fully restrict from lending to maximise its voting power on critical issues such as climate change. LGPS

Central also monitors meetings and will restrict and/or recall lent stock in determined circumstances, e.g., in the case of filing or supporting a shareholder proposal that is in support of our engagement objectives, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock. We support the guidance provided by the UK Stewardship Code on the disclosure of our approach to security lending.

## 2.5. Voting Disclosure

We publicly disclose the implementation and the effectiveness of our Voting Principles and our voting outcomes via:

- A quarterly report summarising our voting activities to our Pensions Committee
- Disclosure of our voting activity and outcomes within our Annual Reports and Accounts and Annual Stewardship Report

From time to time, we may choose to “pre-declare” our voting intentions for particular resolutions. This might include declarations made through third party platforms, such as the platform administered by the Principles for Responsible Investment.

## 3 VOTING PRINCIPLES

The principles below describe the broad parameters we will consider before casting our votes. They are supplementary to the principles and provisions of the Code, which we fully support. It is not possible for one document to cover every eventuality and this document’s ambition is to serve as a guide.

### 3.1 A Great Board with a Long-Term View

Good governance starts with a great board. We expect our investee companies to appoint an effective board of directors whose combined expertise is a key strategic asset to the company. We believe the most effective boards include a diversity of skills, experiences, and perspectives.

#### Diversity

We support the Davies Review<sup>4</sup>, the Hampton-Alexander Review<sup>5</sup> and the Parker Review<sup>6</sup>, and the UK Financial Conduct Authority’s listing rules<sup>7</sup>. We expect companies to disclose whether they comply – or, if not, why – with the following targets:

- At least 40% of board seats and at least one senior board position (Chair, Chief Executive Officer, Chief Financial Officer or Senior Independent Director) held by a woman, and
- At least one board seat held by someone from an ethnic minority background.
- Where companies have not made these disclosures and we do not find there to be a reasonable explanation, we will consider opposing the Chair of the Nomination Committee.
- We expect FTSE 100 and 250 companies to have at least 33% women on their Executive Committee with a voluntary target of achieving 40% executive committee gender diversity by 2025.

<sup>4</sup>[Women on boards: 5 year summary \(Davies review\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/364272/Women_on_boards_5_year_summary_Davies_review.pdf)

<sup>5</sup>[FTSE women leaders: Hampton-Alexander review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/364272/FTSE_women_leaders_Hampton-Alexander_review.pdf)

<sup>6</sup>[Ethnic diversity of UK boards: the Parker Review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/364272/Ethnic_diversity_of_UK_boards_the_Parker_Review.pdf)

<sup>7</sup>[LR.pdf \(fca.org.uk\)](https://www.fca.org.uk/lr/pdf)

We will consider voting against the Chair of the Nomination Committee when there is no adequate explanation of divergence from the listing rules' expectations. Equally, we will consider opposing the Chair of the Nomination Committee when the Executive Committee (and its direct reports) has materially less than 30% (FTSE 100) or 25% (FTSE 250) female representation.

We will consider voting against the re-election of all members of the Nomination Committee where insufficient progress is made against board diversity and targets and where no credible plan exists to achieve this.

### **Time Commitment**

Board members should be able to devote sufficient time to their directorship, should refrain from becoming "overboarded" and should attend all relevant meetings including committee meetings (audit, nomination, remuneration or other). Non-attendance should be explained in the Annual Report and Accounts. The re-election of overboarded directors will not be supported, even if they are from demographics that are currently underrepresented in UK boardrooms.

### **Board Size and Independence**

The Chair should ensure the board is of an appropriate size. Whilst we are not prescriptive on board size, we would question boards comprising five or fewer members, or large boards of sixteen or more members. In line with the Code, we expect the Chair to be independent on appointment and the majority of board members, excluding the Chair, to be independent according to the criteria defined in the Code. Independence is not, however, a sufficient condition for the support of a director's election or re-election: each director must offer a valuable contribution to the functioning of the board. With regards to the "nine-year rule" of independence, whilst we include a tenure of nine years or fewer among our criteria for independence, we fully support directors that make valuable contributions to the boardroom, even if their tenure exceeds this guideline. We will typically not support the election directors associated with special interest representation.

### **Committees**

Boards should include nomination, remuneration, and audit committees. The latter two board committees should solely be made up of independent non-executive directors who have served on the board for at least a year, and participation by executives in these committee meetings should be by exceptional invitation only and explained in the Annual Report. Both the audit and the remuneration committee should have at least three members. The Annual Report should include a clear report from each committee Chair explaining the issues the committee has prioritised during the year in review, outlining progress in clear and easily understandable manner and made without recourse to boiler plate language.

We support the creation of additional committees that are appropriate to the business model in question, but we do not support unwarranted layers of governance, or the outsourcing of important issues to less experienced directors. We support board oversight of sustainability issues, either through committee structures or through individual responsibility. We support the election of employee representatives where this improves the quality of the board and accountability to stakeholders.

**External Advisors**

External advisors on remuneration and audit should be accountable to the committees, and details should be disclosed in the Annual Report including the nature of services provided and whether the advisor provides additional services. Full disclosure of advisors' compensation and length of tenure shall be fully reported in the companies' Annual Report. Conflicts of interest relating to external advisors should be disclosed and managed effectively.

**Leadership**

The role of the Chair is of special significance, as is the relationship between the Chair and CEO. The Chair should set a tone of transparency and openness towards stakeholders. We pay particular attention to our vote on the re-election of the Chair. We support the Code's principles and provisions in relation to the role of the Chair and the eligibility of candidates. In exceptional circumstances we will support an interim Executive Chair, but expect a cut-off date to be provided, along with the appointment of a Deputy Chair and/or a strong Senior Independent Director ("SID"). Such exceptions should be discussed with shareholders and a clear and convincing rationale must be disclosed. The SID is another role of significance, and we would not usually support the re-election of a non-independent SID, where independence is defined as per the Code.

**Effectiveness, Evaluation & Election Process**

The effectiveness of boards should be reviewed internally (by an independent director, usually by the SID) on an annual basis. It should also be reviewed by an external party every three years. Companies should seek shareholder input into the process for determining board effectiveness, and the identity of the triennial external reviewer should be disclosed in the Annual Report. An effective evaluation of the triennial external reviewer should be disclosed in the Annual Report. An effective evaluation should evaluate how well the board is functioning as a group and how each director contributes to the board functions. Directors should be re-elected on an annual basis by majority vote except in the case of controlled companies. Director biographies should be sufficiently detailed in order for voting shareholders to make an informed judgement, and the Nominations Committee reports should describe the contribution the director will make, or has made, to the board during the year.

**3.2 A Transparent Audit Function, Supporting True and Fair Reporting****Committee and Disclosure**

The audit committee of the board plays a critical role and votes relating to the committee's composition and conduct carry particular importance for shareholders. The committee should be composed of at least three independent non-executive directors, with at least one having robust financial experience. Each member should have been on the board for at least a year in order to become familiar with the business. Members of the audit committee should achieve 100% committee meeting attendance and the thresholds for "overboarding" are stricter for audit committee members than for other directors. Attendance by executives at audit committee meetings should be by invitation only and should be explained in the Annual Report. We expect the audit committee to take responsibility for reviewing internal audit controls.



The statements of viability should be clearly disclosed. Companies should provide sufficient disclosure on material and emerging risks across a suitably long-term horizon. “Long-term” should relate to the company’s business cycle and should never be limited to the next twelve months. Aside from a description of risks, the strategic report should detail the contribution and composition of the company workforce.

When auditors provide a qualified opinion to the Annual Report and Account, we will not support the approval of the Annual Report and Account.

In general, we support the FRC’s guidance on risk management, internal control, and related financial and business reporting. We will consider voting against the Annual Report where disclosure falls short of the mark.

### **Audit Tenure**

A company should disclose its auditor tendering policy and details of the tendering process. We support the UK Audit Regulations, primarily that the external auditor should be independent and conflict-free (from the company and from audit committee members), and there should be regular tendering and rotation (at a minimum: tendering at least every seven years, rotating every 15, with no re-appointment until at least four years following the rotation). The lead audit partner should be rotated and named in the Annual Report. Auditor fees must be clearly disclosed, and non-audit fees should not exceed 50% of total fees over a three-year average. Where this limit is breached, the audit committee should disclose the rationale behind the divergence from good practice and should provide a clear plan for fee reduction. The resignation of an auditor during the financial year should be clearly explained, as should any qualifications to the Annual Report.

We believe such disclosure has even greater impact for Public Interest Entities (PIE) following the recommendations provided in the guidance document “*Restoring Trust in Audit and Corporate Governance*”<sup>8</sup> (The Department for Business and Trade and Department for Business, Energy & Industrial Strategy).

## **3.3 Stewarding our Capital, Protecting Shareholder Rights**

### **Shareholder Rights**

We believe companies should be granted the flexibility to manage their capital structure effectively and raise additional capital where necessary in a timely and cost-efficient manner. We follow the Pension and Lifetime Savings Association’s guidance on related party transactions<sup>9</sup> and the Investor Association Pre-Emption Rights Guidelines on capital-related resolutions<sup>10</sup>.

We are not supportive of granting companies unlimited authorisation to raise capital unless there is a sufficiently compelling case. We encourage companies to use the 14-day General Meeting facility to raise extraordinary, unanticipated volumes of capital and expect prior dialogue with shareholders.

Securities that are accompanied by shareholder rights are more valuable than securities lacking these rights. For this reason, we will rarely support resolutions seeking article changes that are materially detrimental to shareholder rights.

<sup>8</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf)

<sup>9</sup>[07-THE-PLSA-VOTING-GUIDELINES.pdf](#)

<sup>10</sup>[Share Capital Management Guidelines 2023.pdf \(theia.org\)](#)



We will not typically approve the creation of non-voting shares and usually vote against attempts by controlling shareholders to increase the differential between his or her level of equity ownership and voting control. For newly listed companies, we expect time-based sunset share provisions<sup>11</sup> to be included in the articles of association disclosing when non-voting shares will be phased out. We shall avoid therefore the unnecessary dilution of our shares and seek to preserve our rights of pre-emption. We expect resolutions pertaining to capital decisions to be split out on the proxy statement, rather than “bundled” into one resolution. Stock splits are approved on a case-by-case basis with reference to the justification disclosed by the company.

We are strongly opposed to virtual-only Annual General Meetings (“AGMs”) and view AGMs as fundamental to the right to attend shareholder meetings in-person. We typically oppose resolutions seeking authority to limit the jurisdiction that applies to dispute resolution.

### **Dividends and Share Buy Backs**

Companies ought to disclose clear dividend policies. Dividends should be sufficiently covered and put to shareholder vote. Uncovered dividends should be accompanied by an explanation covering the sustainability of the dividend or distribution policy. Companies proposing scrip issues should offer a cash dividend option. Companies ought to explain why a share buyback programme is the most appropriate method of returning cash to shareholders, including the circumstances in which a buyback will be executed. We pay particular attention to share buyback programmes that could affect remuneration structures through the influence on earning per share (“EPS”) measurements. Such structures must be buyback-neutral and buyback authorities must be within acceptable limits, expiring no later than the following AGM. We will typically vote against waivers of Rule 9 of the Takeover Code<sup>12</sup> (in relation to ownership levels at which mandatory bids are required).

### **Corporate Actions**

Merger and Acquisition (“M&A”) decisions are made on a case-by-case basis, with reference to the long-term economic interest of our members. We will consider supporting transactions with that have long-term benefits to shareholders, good quality disclosure, high quality management, supportive independent advice, and the approval of the independent directors. We will aim to determine whether the deal yields a good strategic fit, and we value prior engagement with shareholders. We do not support poison pills<sup>13</sup> that entrench management or damage shareholder value. Introduction of poison pills should be clearly explained and put to shareholder vote. By contrast, poison pill redemption resolutions are generally supported. We will usually vote at courts and classes in a consistent manner with our AGM vote.

### **Political Donations**

We do not support resolutions seeking authority to make political donations where the recipients are likely to be political parties or lobbying organisations of concern.

<sup>11</sup> In voting, the sunset clauses refer to provisions in the companies’ articles of association that determine when and how time-limited multiple-vote stock should sunset.

<sup>12</sup> [The Takeover Code - Takeover Code \(thetakeoverpanel.org.uk\)](https://thetakeoverpanel.org.uk)

<sup>13</sup> A poison pill is a defence strategy used by the directors of a public company to prevent activist investors, competitors, or other would-be acquirers from taking control of the company. Poison pills are executed by buying up large amounts of its stock. They effectively block the accumulation of a company’s outstanding shares.

### 3.4 Fair Remuneration for Strong Performance Through the Cycle Aligned with Long-Term Success

Remuneration should attract, retain, and motivate the individuals and groups of individuals most suited to managing the company whilst not being perceived as excessive or unfair. Remuneration structures should be simple and easy to understand for both shareholders and executives, who need clear lines of sight through to their objectives. Executive pay should be considered in the context of overall workforce pay and in the context of the long-term financial needs of the company, its ability to meet its dividend policy and its ongoing requirement for capital investment and research and development.

#### Pay Structure

##### *Base Salary*

An executive's base salary should reflect his or her role and level of responsibility. Base salary should not increase significantly without a clear, compelling, and exceptional justification. The rate of salary should not be solely or mainly based on quartile comparison, and we would expect salary benchmarking to occur once every three years at a maximum. Salary increases should be set in the context of wage increases to the median worker. The remuneration committee should understand how base pay increases affect the total level of pay now and in the future. Contracts should be agreed on a twelve months basis.

##### *Annual Bonuses*

Annual bonuses should have stretching and declared targets that link to company strategy. There should be consistency across targets and these should be detailed in the strategic report. Performance against targets should be disclosed in the remuneration report. In determining targets for variable pay, the remuneration committee should consider strategic, financial, and non-financial measurements, and companies with high levels of ESG risk should consider using ESG metrics with appropriate weightings. We encourage companies to embed robust ESG metrics into their pay structure and to explain to shareholders the relevance of each metric to its strategy. Remuneration committees should structure executive plans which promote the long-term success of companies. Short-term realised quantum should not exceed long-term award opportunities. We also expect a significant portion of short-term award to be deferred. This improves alignment with shareholders, does not risk excessive dilution, and includes a suitable holding period.

##### *Long-Term Incentive Plans*

Long-Term Incentive Plans ("LTIP") should be transparent, understandable, long-term, and appropriate to the circumstances and strategy of the company. Companies should avoid having more than one active incentive plan. Performance conditions should ensure there is no reward for failure, nor for luck, and sufficient clawback and malus provisions should be designed and applied. The performance measurement period should have a minimum of three years, with a vesting period a minimum of three years from grant. Whether contained in an LTIP or otherwise, performance targets should not reward below-median performance and threshold vesting amounts should not be significant relevant to base salary. Where comparator groups are used, the remuneration committee should disclose why the comparators are believed to be genuinely representative (e.g., with reference to their size, sector, and performance). If awards depend on Total Shareholder Return ("TSR") relative to overseas peers, companies should disclose fair currency conversion policies in advance of the grant. There should be several performance targets, which should relate to shareholder return, to the business strategy and include financial and non-financial elements, according to the company's current and expected operating environment. We would not expect performance conditions to be re-tested between remuneration policy reviews.

We support departure from traditional remuneration models including LTIP. When such plans are put forward, we expect extensive disclosure on the alignment between companies' business models and the chosen variable pay structure, and there should be extensive disclosure on how shareholders rights are retained.

The remuneration plan should include a suitable holding period following an executive's departure. Executive share ownership for alignment purposes should be distinct from shares granted under LTIPs, though exceptions may be made where shares are vested and not subject to ongoing performance conditions. Significant share sales should be rationalised in the Annual Report.

#### ***Executives' Pensions Contributions***

Executives' pensions contributions should be aligned to the wider workforce. Changes in actuarial assumptions that affect transfer values should be clearly disclosed. No element of variable pay should be pensionable.

#### ***Retention Payments***

We will not usually support retention payments ("golden handcuffs") but could support deferred payments to key staff during critical periods. A clear rationale should be presented during shareholder dialogue. Similarly, compensatory payments for new appointments (including where the appointee has had to forgo expected variable pay at a previous employer) should only be considered with a clear rationale and we would expect compensation to be awarded in shares and subject to performance conditions. New appointments should normally begin on a lower salary to avoid creeping costs.

#### ***Change of Control***

Following a change of control, awards under an LTIP plan should be made pro-rata for time and performance to date; they should not automatically vest. Share-based awards should not lead to excessive dilution and exceptions to this principle should be put to shareholder vote, which ought to receive support from the many minority shareholders. In the event of a decline in the share price, remuneration committees should prevent accidental ("windfall") gains through top level grants using downward discretion. Remuneration policies should explain the treatment of M&A and share buybacks where these are likely to impact performance targets either directly or indirectly. We will typically oppose tax equalisation payments where this introduces a new (net) cost to the company. We expect a cap on such payments to be disclosed.

#### ***Disclosure***

We expect the Chair of the remuneration committee to provide a detailed but intelligible report outlining the work undertaken during the year and, where relevant, how the committee has responded to significant levels of dissent votes.

Upward discretion should also be fully accounted for. The target and maximum awards under the bonus scheme and incentive plans should be clear, as should the effect on EPS-based targets of share buyback schemes. The targets for variable pay, for this year and next, should be disclosed (there should be retrospective disclosure if the targets are commercially sensitive). A remuneration committee should design and apply appropriate remuneration structures and should enter into dialogue with shareholders and employee representatives. The outcome of consultations should be made known in advance of the AGM, such that policy changes do not come as a surprise to engaged shareholders or employee representatives.

The committee should feel empowered to apply discretion appropriately. Where a related remuneration resolution (e.g., remuneration report, remuneration policy and the re-election of the Remuneration Committee Chair) attracts significant dissent, the company should address concerns raised by shareholders following a constructive dialogue with advisors and shareholders.

We encourage companies to disclose executive to employee ratios, gender pay gap, and other workforce diversity and inclusivity data which can provide insight into pay practices. We may consider voting against the financial statements and statutory reports of qualifying companies (those with 250 or more UK employees) that fail to disclose their gender pay gap, where required to report by government.

### **3.5. Sustainable Business Practices**

We expect companies to assess and address the impact of their operations on society and the environment, including in supply chains and business relations, and through their product life cycle. We expect companies to consider material ESG risks and opportunities within their long-term strategic business planning. ESG risks and opportunities can have a significant effect on the value of a company's assets over time, and on its ability to generate long-term returns for shareholders.

When voting, we will consider disclosure of codes of conduct, policies, strategies, management plans and performance data with respect to ESG issues, as well as impact assessments of specific projects or operations. Reporting should indicate how the board and the company holistically manage those risks and opportunities and ideally be aligned to established reporting standards and frameworks.

#### **Net Zero**

We will consider voting against the Chair, and other relevant directors or resolutions (including remuneration), at companies where we consider a company's response to the risks and opportunities presented by climate change to be materially misaligned with the goals of the Paris Accord.

We expect disclosure of climate-related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures and the Climate Action 100+ Benchmark Framework. Furthermore, we expect companies to present a climate transition plan with an explicit net-zero by 2050 target to shareholders for advisory voting at three-year intervals, as a minimum.

Net-zero strategies should be expressed in absolute emissions, not emissions intensity only, and should cover the full lifecycle of emissions. Strategies should also include 1.5°C-aligned short and medium-term targets, critically 2030 targets, that demonstrate how net-zero by 2050 can be achieved. Progress against the plan should be reported annually to the AGM.

Where climate risks result in material impacts for a company's financial outlook, this should be reflected in the financial statements. We also expect companies to include sensitivities to a 1.5°C pathway in the Notes to the accounts, e.g., impacts for impairments from higher carbon taxes, and to demonstrate that accounting assumptions are consistent with narrative reporting, including climate commitments. If there is inadequate evidence or lack of disclosure in these regards, we will consider voting against Annual Reports and Accounts and/or against the Audit Committee Chair.



If a company is assessed by the Transition Pathway Initiative's Management Quality framework below Level 4, or if a company is a key contributor to our portfolio emissions and is deemed not aligned to our Net Zero expectations, we will consider voting against the company Chair, and other relevant directors who have critical oversight over climate change.

### **Natural Capital**

We encourage companies to be good stewards of natural capital to protect natural ecosystems and help mitigate against biodiversity loss. Through external managers and LGPS Central, we will engage with companies on the provision of more meaningful and consistent data and assess shareholder resolutions that can enhance corporate protection of natural capital, on a case-by-case basis. We will consider voting against the Chair, or other relevant directors or resolutions, if a company scores below 10 on the Forest 500 ranking, which assesses companies' disclosure and management of deforestation risk. From 2025, we will consider voting against the re-election of the Chair of companies that have not demonstrated a constructive dialogue with Nature Action 100.

### **Climate Lobbying**

We expect companies to disclose information on their climate and energy policy lobbying and expenditure, allowing shareholders the opportunity to assess whether these lobbying activities are in line with the goals of the Paris Accord. The guideline applies to companies operating in climate material sectors.

### **Human Rights**

Where we have significant concerns about a company's actions relating to the protection of human rights and human rights risk management, we will consider voting against relevant directors, and supporting relevant shareholder resolutions for promoting better disclosure. This is informed by a range of indicators, such as a failure to comply with legislation or internationally recognised guidance such as the UN Guiding Principles for Business and Human Rights. We will also consider any evidence that a company has caused or contributed to egregious, adverse human rights impacts or controversies and has failed to provide appropriate remedy.

We will consider voting against the Annual Report of FTSE 350 companies who have failed to publish an adequate annual modern slavery statement and provided insufficient explanation. We will consider withdrawing our support for the re-appointment of the Chair of companies that score below 3 in the 2023 Modern Slavery UK Benchmark. We support resolutions asking for companies to implement policies and management systems addressing human rights risks and to proactively undertake human rights due diligence across their operations, including in areas with fragile political stability.

### **Tax Governance and Tax Transparency**

We recognise the importance of companies being accountable for and transparent about their tax practices. We expect portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting. We review reporting against the Global Reporting Initiative Tax Standard 207 as best practice for companies across sectors and will consider voting against board members of relevant committees (audit and risk) in case of material misalignment with this standard.

**Board Responsiveness**

As part of the Company's stewardship priorities, we may consider withdrawal of support to the re-election of the Chair, or other board members, when we have tried to engage with companies but there has been an unsatisfactory engagement outcome.

**3.6 Shareholder Proposals**

We are regularly called on to vote on shareholder proposals. These proposals address a range of topics including proxy access, articles of association, climate change, human rights and more. We take a case-by-case approach to shareholder resolutions and will support resolutions that are appropriately worded and, on balance, encourage sustainable business practices and support the long-term economic interests of our stakeholders and help to make boards of directors accountable to shareholders.

Support to shareholder resolutions may also not be provided if we, or LGPS Central on our behalf, are currently undertaking a constructive dialogue between a company and the company boards on the matter pertinent to the resolutions.

We are also cognisant of resolutions in the global market which are requisitioned by institutions not seeking the sustainable and equitable success of companies, and such resolutions will not be supported.

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West Midlands Pension Fund  
PO Box 3948  
Wolverhampton  
WV1 1XP

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 23 April 2024
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<b>Report title</b>	Pensions Administration Report to 31 December 2023	
<b>Originating service</b>	Pensions Services	
<b>Accountable employee</b>	Simon Taylor Email	Assistant Director (Pensions) <a href="mailto:Simon.taylor2@wolverhampton.gov.uk">Simon.taylor2@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:Rachel.Brothwood@wolverhampton.gov.uk">Rachel.Brothwood@wolverhampton.gov.uk</a>

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**Recommendation for action:**

The Pensions Board is recommended to note the approval by the Pensions Committee on 20 March 2024 of:

1. The 14 applications for admission from employers into the Fund as detailed in Section 8 and Appendix B of the report.

The Pensions Board is also asked to note:

1. Performance and workloads of the key pension administration functions.
2. Development of the Fund's membership and participating employer base.

## 1.0 Purpose

- 1.1 To inform the Pensions Board of the routine operational work undertaken by the Pensions Administration Service areas during the period 1 October 2023 – 31 December 2023.

## 2.0 Background

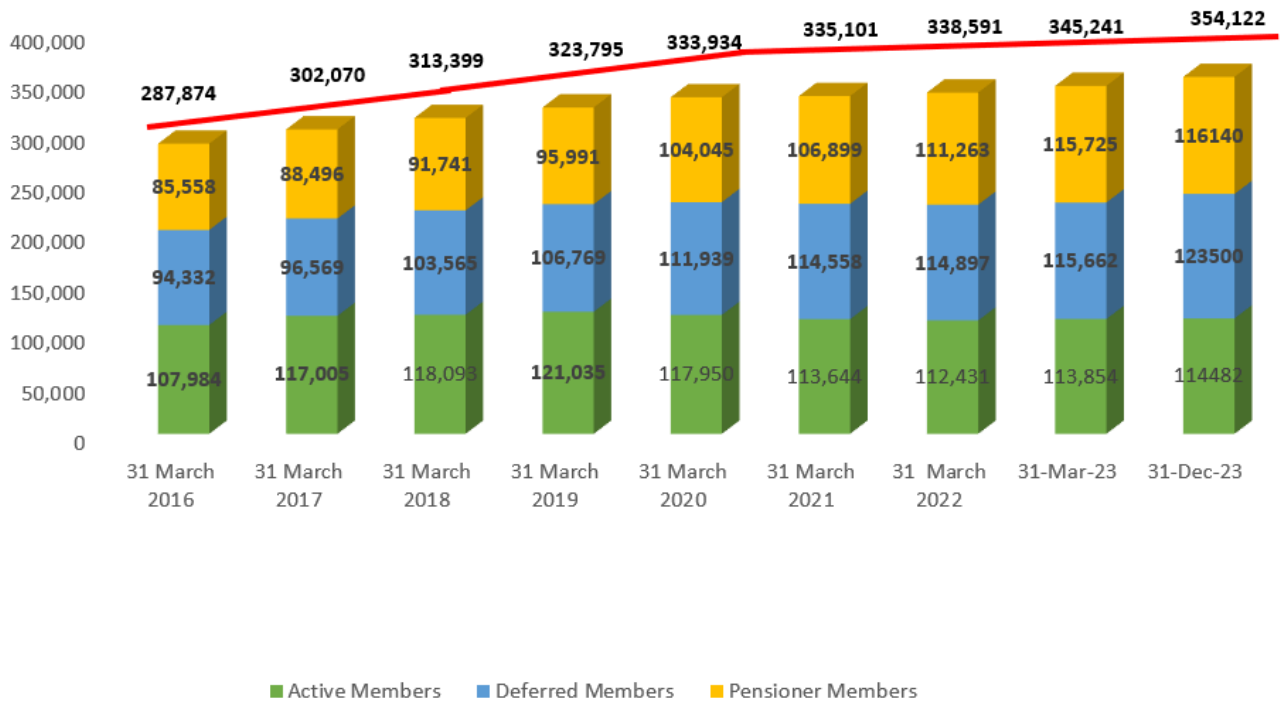
- 2.1 The Fund provides a pension administration service covering employer, customer and member services, data processing, benefit operations, payroll, and systems/technical support. A report is provided to the Pensions Board on a quarterly basis to assist in monitoring the activity and performance of these functions during that period.
- 2.2 Following the transition to a new administration system in July 2023, the content of this report may be slightly different to those in prior reports, with elements continuing to be developed for future reporting periods. The key information is expected to remain consistent and will develop during the year. We continue to work with our new provider to develop and analyse meaningful reporting metrics for quarterly and annual reporting, ensuring comparability and accuracy of reporting.

## 3.0 Scheme Activity

### 3.1 Membership Movement – Main Fund

- 3.1.1 The total number of scheme member records in the Fund on 31 December 2023 stands at 354,122. The long-term trend in membership continues to illustrate a move towards a more mature profile whereby, in general, pensioners and deferred memberships continue to rise by more than active.

	<b>Membership as at 30 September 2023</b>	<b>Net Movements during the period</b>	<b>Membership as at 31 December 2023</b>
Active Members	113,286	1,196	114,482
Deferred Members	120,646	2,854	123,500
Pensioner Members	116,336	(196)	116,140
<b>Total Members</b>	<b>350,268</b>	<b>3,758</b>	<b>354,122</b>



### 3.2 Workflow Statistics and Key output monitoring

- 3.2.1 As noted in the January 2024 report, following Go-Live of the new system, there was both a volume of casework created during the planned period of downtime on processing, as well significant levels of new processes commenced during the reporting period. Casework and statistics continue to be monitored daily across a suite of new processes to track volumes incoming and completed which aid in the review and allocation of work. At the same time, aged analysis has been undertaken across key processes to determine the oldest cases and ensure these are addressed alongside priority cases outlined in section 3.2.2 below.
- 3.2.2 Member quotations and payments, which include Retirements and Refunds are being prioritised, including review of payments following member bereavement. This prioritisation is in line with an established escalation process, based on individual circumstances and responsive to financial hardship.
- 3.2.3 Our 116,000 pensions currently in payment continue to be paid on time and without disruption. Supplementary payrolls continue to be used to positive effect, ensuring we can make payment of arrears throughout the month, allowing members to receive payments faster. All lump sum retirement payments are being paid as soon as possible (with daily runs).
- 3.2.4 During the reporting period, the Fund processed over 2,700 items of priority casework (involving a payment to a member i.e. retirements, beneficiary payments and transfers-out). This represented a 169% increase on the prior three-month period (1,006 cases). Across 'lower priority' processes over 1,800 items were completed in the same period versus 969 for the prior 3 months (an 86% increase).

- 3.2.5 The process for escalation and prioritisation of individual casework, together with the flexing of resource to support priority work will continue to be monitored closely over the coming weeks and months as teams become more familiar with the new system and management reporting tools and as processing rates increase.
- 3.2.6 The Fund has developed enhanced reporting, to include weekly tracking and aged analysis (including “by employer”) of key processes and member prioritisation. Appendix A provides a summary of the month-by-month progress on retirement casework over the period October 2023 to February 2024 as well as an overview of volumes involved across other elements of key casework. This reporting has enabled better management of caseloads and improved member outcomes. Future focus will include developing further reporting functionality across other processes and to enable and track delivery performance aligned to established KPIs for use in case management and reporting.

#### 4.0 Transfer Out – All Casework

- 4.1 In total, 17 individual transfer payments were made during the period, 1 October 2023 to 31 December 2023, resulting in a total amount transferred of £892,771. This is broken down into the following categories:

Type of transfer	Number of transfer payments	Value of Transfer Payments (£)
Non-Local Government Pension Scheme (LGPS)	17	£892,771
Interfund (LGPS Fund)	0	£0
Additional Voluntary Contributions	0	£0

#### 4.2 Non LGPS Transfers

- 4.2.1 During the period 1 October 2023 to 30 December 2023, 93 transfer value quotations were issued to members considering transferring their benefits out of the scheme (by way of comparison, in the prior year, 1 October 2022 to 31 December 2022, 277 transfer value quotations were issued to members). The Fund continues to monitor any trends and increases in demands, as part of its programme of work to protect members from potential pension scams.
- 4.2.2 In total, 17 transfer payments were made during the period, 1 October 2023 to 31 December 2023, (15 of these were to non-public sector schemes) resulting in a total amount transferred of £840,944, (in the prior year 1 October 2022 to 31 December 2022 a total of 33 transfer payments were made totalling £750,907). The payments by value and value break down are as follows:



<b>Value of Transfer Payments</b>	<b>Number of Transfer Payments to Public Sector Schemes</b>	<b>Number of Transfer Payments to Other Schemes</b>
0 to £30,000	1	11
£30,001 to £100,000	1	3
£100,001 to £200,000		1
<b>Total</b>	<b>2</b>	<b>15</b>

4.2.3 Analysis has been undertaken of the Transfer out requests to non-public sector or occupational schemes over the period of October to December 2023 to review the volume and trends. During the period, a total of 11 non-public sector or occupational scheme transfer out reviews were undertaken by the transfer panel, to a total of 4 different receiving schemes. There were 7 transfers under £30,000 in value, meaning members were able to transfer these payments without a requirement to take financial advice. The average age of members transferring out was 55 years with the main reasons for members transferring out was consolidate/combine pensions with one pension provider.

## **5.0 Internal Dispute Resolution Procedure (IDRP) Casework**

5.1 For the reporting period (October to December 2023), three stage 2 cases have been completed (all of which were not upheld). Three stage 1 cases were completed, (two not upheld and one partially upheld).

5.2 For the reporting period two new cases have been received and are under investigation (one stage 1 case and one stage 2 case).

## **6.0 Pensions in Payment**

6.1 The gross annual value of pensions in payment to September 2023 was £641m, £15.6m of which was recovered from employing authorities and other bodies as the expenditure was incurred.

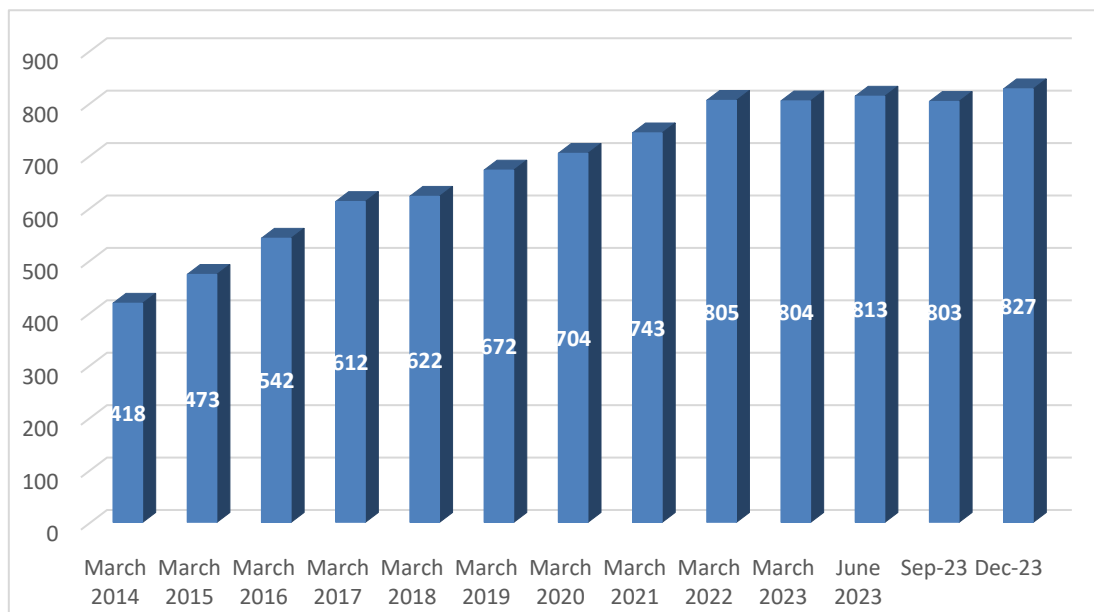
6.2 Monthly payroll details were:

<b>Month</b>	<b>Number</b>	<b>Value £</b>
July 2023	94,594	46,382,763
August 2023	94,459	45,819,993
September 2023	105,947	46,915,708

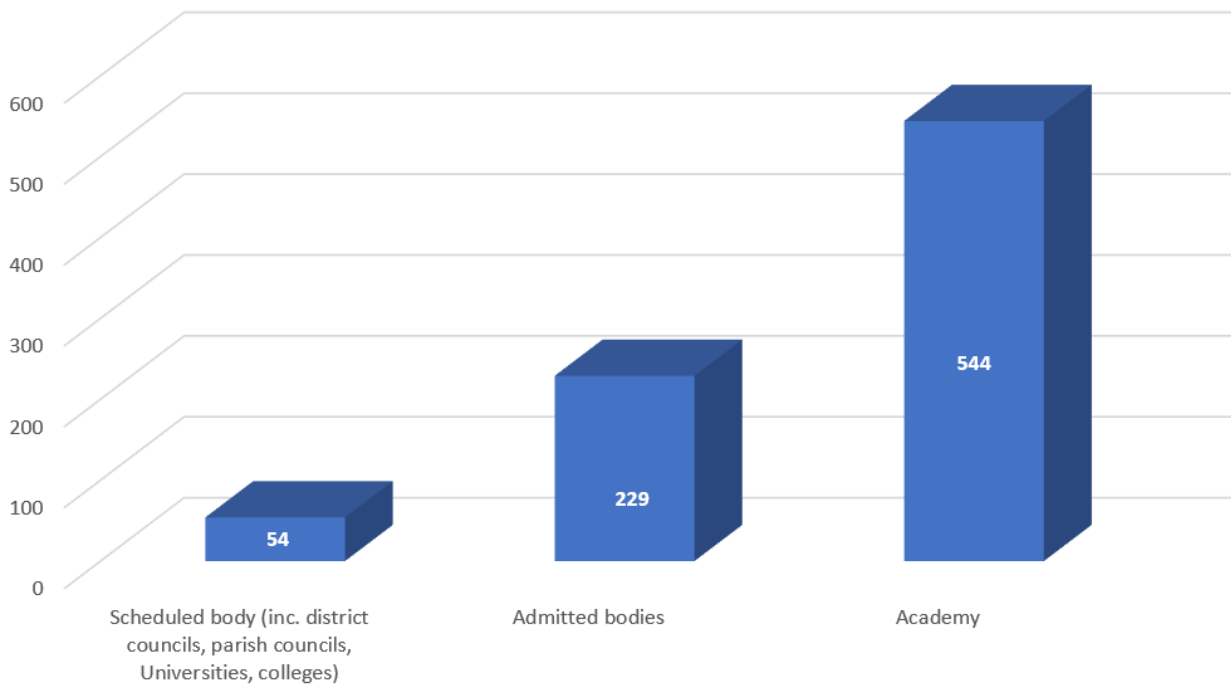
The September figure includes pensioners paid on a quarterly basis.

## 7.0 Employer Membership

7.1 During the period, the Fund has seen an increase in employer numbers, with the overall number of employers registered with the Fund standing at 827 as at 31 December 2023. Overall, there has been a 97% increase since March 2014 as shown in the graph below, however, for 2022/23 the rate of increase slowed relative to previous years. This is partly due to a high rate of academy conversions a decade ago and a steadier rate of increase is expected going forward.



7.2 The employer base as at 31 December 2023 is categorised into the following employer types:



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

- 72 admission agreements
- 19 academies
- 100 employer terminations

## 8.0 Application for Admission Body Status and Employer Data

8.1 Organisations must satisfy one or more of the admission criteria before they can be admitted to the Fund following approval of applications. Where applications need to be progressed outside of the Committee meeting cycle, Pensions Committee has delegated responsibility for approving such applications to the Executive Director of Pensions in consultation with the Chair or Vice Chair of Pensions Committee.

8.2 There were 14 applications for admission approved by Committee on 20 March 2024, these are detailed in Appendix B.

8.3 As at the end of February 2024, 63% (461) of expected monthly data submissions have been received from participating employers. The provision and timeliness of employer submissions may have direct implications for timely member servicing and ongoing engagement related to individual casework. In general, the new data interfaces are improving efficiency with significant benefits for the longer-term. Engagement is ongoing with those employers for whom the Fund is yet to receive monthly submissions, as covered in more detail in the Customer Engagement report.

## 9.0 Update post 1 January 2024

- 9.1 Acknowledging the continued focus upon processing rates, leading to improved customer outcomes, combined with evolving development and functionality, this section provides a high-level overview of operational progress outside of the reporting period. Further detail will be forthcoming in the July 2024 Board report.
- 9.2 Overall, we have seen further improvements, an increase in processing rates leading to reduced waiting times and an increase in delivery of information and payment of benefits to our members. Over the three months to the end of January 2024, we have seen a significant increase in our processing of retirement benefits. We have completed around 1,900 processes during this period compared to around 600 in the three-month period from Go-Live (24 July 2023). Furthermore, in the period 30 January to 22 February 2024, over 700 retirement processes were completed at a rate exceeding those pre-Go Live. In general, retirement finalisations are being completed in a timelier manner, with no cases remaining older than 9 weeks as at the beginning of March 2024 and having further reduced since then.
- 9.3 The Fund continues to redistribute resources to focus upon priority processing and has actively recruited to bolster capacity and resilience. Recruitment remains ongoing and to include exploring short-term third-party support where appropriate.
- 9.4 Complementing the improved processing capacity and ensuring our customers are kept informed of progress, the Fund has provided further updates to members and employers to signpost information, guidance, and increased functionality. More information is provided in the Customer Engagement report.

## **10.0 Financial Implications**

- 10.1 The report contains financial information which should be noted.
- 10.2 Employees of organisations who become members of the LGPS will contribute the percentage of their pensionable pay as specified in the Regulations.

## **11.0 Legal Implications**

- 11.1 The Fund, on behalf of the City of Wolverhampton Council will enter into a legally binding contract with organisations applying to join the LGPS under an admission agreement.

## **12.0 Equalities Implications**

- 12.1 There are no direct equalities implications.

## **13.0 Other Potential Implications**

- 13.1 There are no other potential implications.

## **14.0 Schedule of Background Papers**

14.1 None.

**15.0 Schedule of Appendices**

15.1 Appendix A – Key process casework summary

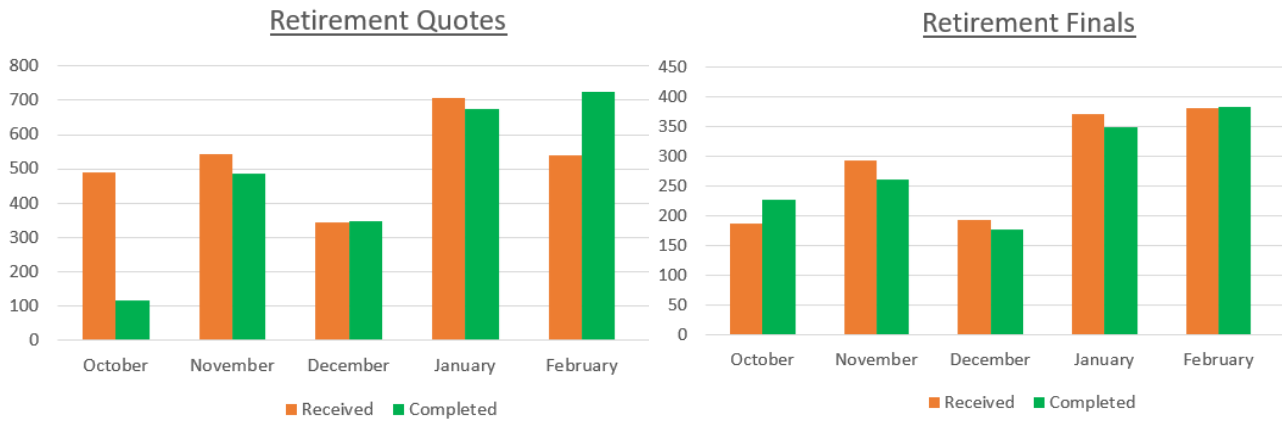
15.2 Appendix B – Admitted Bodies Applications March 2024

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## Appendix A: Retirement and Key Casework Overview

**Chart a): monthly retirement process volumes (received and completed) Oct 23 – Feb 24**



**Table b): key casework completion rates and volumes outstanding as at 11 March 2024**

	Completed 24 July to 18 Oct 2023	Completed Oct 2023	Completed Nov 2023	Completed Dec 2023	Completed Jan 2024	Completed Feb 2024	Completed to 10 March 2024	Outstanding 11.03.2024
Deferment	686	266	633	274	417	538	190	9,083
Refund/opt out	278	45	142	87	110	63	23	161
Retirements	596	344	747	525	1,025	1,110	278	2,896
Death Notification	358	363	274	187	323	255	106	208
Death Finalisation	52	45	68	46	73	84	35	1,033

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## Appendix B: Admitted Body Applications March 2024

Employer name	Guarantee Status (Agreement)	No. of employees (Scheme members) Agreement type	Status (Approved/pending approval)
Contract Services (WOLVERHAMPTON & WREKIN) Limited (St. Bartholomews CE Multi Academy Trust - Oak Medow School)	St. Bartholomews CE Multi Academy Trust - Oak Medow School	5 (5) Closed	Approved
Pendergate Limited (Hamstead Hall Academy Trust)	Hamstead Hall Academy Trust	14 (14) Closed	Approved
Caterlink Ltd (St Francis and St Clare MAC)	St Francis and St Clare	21 (21) Closed	Approved
Accuro FM Ltd (Robin Hood MAT)	Robin Hood MAT	4 (4) Open	Approved
ABM Catering Ltd (Lozells Junior and Infant School and Nursery)	Birmingham CC	5 (5) Closed	Approved
Mellors (St Thomas More)	Walsall MBC	3 (3) Closed	Approved
Compass Contract Services (UK) Ltd (Broadleaf Partnership Trust)	Broadleaf Partnership Trust	25 (25) Closed	Approved
Coombs Catering Partnership Ltd (Inspire Education Community Trust)	Inspire Education Community Trust	5 (5) Closed	Approved
Caterlink Ltd (Hales Valley Trust)	Hales Valley Trust	24 (24) Closed	Approved
SIPS Education Ltd (The Straits)	Dudley MBC	5 (5) Closed	Approved

North Midlands Operations Limited (Wolverhampton CC)	Wolverhampton CC	24 (14) Closed	Approved
CONTRACT SERVICES (WOLVERHAMPTON & WREKIN) LIMITED St Chad's	St Chad's Academies trust	2 (2) Closed	Approved
Edwards and Ward Ltd (Entrust Education Services Ltd)	Entrust Education services	2 (2) Closed	Approved
Dolce Ltd (Dudley Council)	Dudley MBC	N/K (N/K) Closed	Approved

<b>Report Title</b>	Customer Engagement Update	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Simon Taylor Email	Assistant Director (Pensions) <a href="mailto:Simon.taylor2@wolverhampton.gov.uk">Simon.taylor2@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for action:**

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<sup>st</sup> October 2023 to 31<sup>st</sup> December 2023 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 & Communication

- 3.1 The Member Services team continues to deliver member support via hybrid channels including member webinars, face to face presentations and following up with individual consultations as required. During this reporting period **1,721** members attended our presentations, webinars, workshops and other events. These were followed by **340** individual member consultations. Our events are delivered at various times throughout the day to accommodate attendance around member and work commitments. This delivery and the associated feedback is summarised in Appendix A.
- 3.2 During this reporting period, the Member Services team's focus within the context of 'hard-to-reach' activity, has been to provide face to face support to adult services, library services and Parish Councils across the region. **9** satellite support events were delivered to **112** hard to reach members. These are members who may not normally be able to access our services due to the nature of their work and location, which might include access to web-based delivery (i.e. computer facilities), working hours or 'satellite' locations.
- 3.3 The Fund's roadshow vehicle hosted events across the region, during this reporting period we visited **8** locations and saw **708** members. Feedback from these events was **88%** of members rated them excellent, **11%** rated very good and **3%** as good.
- 3.4 A total of **388** Pension Saving Statements were sent to members by the 5 October 2023 where they had exceeded the annual allowance limit. The Member Services team followed-up on the issuing of these statements with offering high earners the chance to book on **4** Pension Tax Webinars, which **206** higher earners registered for (this was **75** more attendees than 2022). These webinars covered the changes to lifetime allowance and annual allowance along with signposting a range of support which is provided from videos to factsheets.
- 3.5 The Fund continued to review and update our website, including revised publications, and we are also reviewing all website forms to ensure they are all fully electronic and up to date with current best practices and branding.



- 3.6 Website content continues to be updated and there have been **374,134** web page views in this quarter.
- 3.7 The Fund has created a dedicated page on our website ("**System Transition Update**"), to keep customers up to date on our services, along with an evolving set of FAQs and signposting to further support.
- 3.8 In-line with the transition to our new Pensions Administration System and to ensure members remain up to date, as well as signposting important information and guidance available, during the months of October & December we provided members with a further update on progress. This was sent to approximately **150,000** scheme members for whom we hold an email address.
- 3.9 Throughout this quarter **24,285** members have registered for the new Pension Portal bringing the total registrations at 31 December 2023 to **57,922**. Registrations in total to date stand at **66,645**.
- 3.10 The Pension Portal suite of support continues to expand which includes videos, booklets and guides.
- 3.11 Each Autumn the Fund provides Deferred and Active members with a newsletter which covers a variety of updates across the Fund, important member information and covers topical issues in the LGPS. Through October to December the Fund has sent newsletters with a unique card to assist members to take control of their pension benefits and register for the Pension Portal. A copy of these newsletters are available on the Fund's website.
- 3.12 The Fund hosts an annual pensioner engagement forum, designed for pensioner members to provide their feedback and thoughts to enhance a member's retirement journey for the future. Due to increased demand of attendees registering to be part of this event, the Fund held two forums, on the 27<sup>th</sup> October and the second on the 22<sup>nd</sup> November. Compton Care attended as a guest speaker along with a talk from Dementia friends. Pension Age and Alzheimer's UK also provided literature to assist members on a variety of subjects. The group provided some useful feedback in regard to advertising our "Tea & Teach" events which we will act upon when promoting these events this year. Other feedback will be published in the "You said, we did" part of the 2024 pensioner newsletter.
- 3.13 The Fund offers bespoke member support to assist all employers with their individual workforce needs. The Fund created a bespoke support package for one local authority to aid member understanding around mandatory leave implications for benefits, which included the delivery of several face to face and virtual events along with creating a video and an electronic leaflet.

#### **4.0 Customer Services**

- 4.1 An overview of our front-line customer contact activity is shown in Appendix B. This outlines the variety and volume of support provided by the Fund to address members'

pension queries. An indication of the statistics for the previous year is included within the charts as a comparative measure.

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

- Customers following up on an existing Fund process.
- Requests for Pensions Portal support
- Enquiries about accessing pension benefits.
- Request for support with a Fund letter/form.
- Members updating their personal details.

4.3 Contact volumes have been higher (11%) in aggregate over the October to December period compared to prior year due to the ongoing pension administration system transition. The average length of each call has increased by a third as we seek to resolve member issues.

4.4 During the reporting period, member phone lines remained opened from 10am-12pm and 2pm-4pm (whilst noting these opening hours have been increased to 08:30am-12:30pm and 2pm-4pm since March 2024).

4.5 As a further update to present date and to be expanded upon in the next quarter's report, call volumes remain high with longer handling times. Answer rates are improving over time and with a reduction in calls going unanswered. Similarly, emails to the Fund's dedicated customer mailbox remain high, at between 1,500 and 2,000 per week. The Fund has halved the amount of emails outstanding during the period 22 January to 26 February 2024 and is now responding to emails on average within 7 working days.

## **5.0 Complaints**

5.1 The Fund has a complaint monitoring framework, which enables regular monitoring and review of trends impacting performance. Where a complaint highlights an improvement area, this is investigated and monitored to help shape future services and improve overall customer satisfaction going forward. This mirrors the process undertaken for general customer feedback.

5.2 Complaint numbers have continued to increase and are higher compared to previous years. 381 complaints were received during reporting period (compared to 152 in the previous quarter), of those complaints, 79% relate to processing delays resulting from the transition to the new Pensions Administration System and the planned period of downtime in July prior to go-live, together with ongoing internal training and development. The remaining 21% are related to Customer Experience resulting from increased customer contact, longer waiting and call handling times, and queries relating to the introduction of the new member portal.

## **6.0 Employer Engagement**

### **6.1 Employer Support**

- 6.1.1 The Fund continues to engage with a number of employers and employer groups on the new pension administration system and our customer servicing.
- 6.1.2 A key element of this support, provided by the Employer Services team, is focussed upon employer self-service via the portal (ESS).
- 6.1.3 Alongside telephone and email support, the team conducted 55 system transition support meetings representing 144 employers. Collectively, these employers are responsible for submitting data and payments for over 27,000 members. A plan is also underway to identify and reach out to more employers/payroll providers who we believe need greater support in these initial stages of go live. At present, targeted support is focused on those that are impacted by the March accounting exercise.
- 6.1.4 In addition to the individual support meetings and scheduled online training sessions, guidance documents and videos to assist with navigation can also be found on the Fund's website via the employer pages and also the Employer System Support landing page. A Frequently Asked Questions document has also been uploaded following analysis of common queries raised by employers post go live. The Employer Services team will continue to monitor the queries raised by ESS users and will adjust and adapt the support offered where appropriate.

### **6.2 Employer Webinars**

- 6.2.1 Focus remained on dedicated support and the delivery of training specific to the system transition. The Employer Services team delivered a reduced programme of employer education over the quarter with 2 virtual 'employer discretion' sessions delivered to 2 employers.
- 6.2.2 Looking forward to Q1 2024, employer webinars will incorporate system developments, following the system transition, to include:
- Employer Self Service (ESS) general navigation
  - Running estimates
  - Employer Self Service reporting and processes
  - Monthly data submission
  - Completing and submitting your 2024 Final Statement

### **6.3 Employer Engagement and Performance**

- 6.3.1 Utilising the current virtual working arrangements, the Employer Services team continued to hold performance meetings with various employers throughout the period, albeit at a reduced level to enable additional support to be directed towards the system transition project. Employer performance is assessed in line with the Fund's Pension Administration Strategy (PAS).

6.3.2 During the period the team held 15 meetings with organisations representing 179 employers. Collectively these employers are responsible for submitting data and payments for over 26,000 members.

6.3.3 A Customer Servicing update (employer edition) was circulated in December 2023 which provided a system transition update. The update outlined system developments, acknowledging continued software developments, resourcing arrangements, benefit processing and prioritisation and employer support links.

## **7.0 Engagement since 1 January 2024**

7.1 To encourage the further take-up of the new self-serve function, the Fund has developed pension portal promotion events which will assist members to register and navigate around the new portal. This campaign consists of invites to webinars, face to face support and engagement with employers to increase their members' portal sign up rate.

7.2 In February 2024 the Fund provided customers with a further update of the progress we have made with our system transition, with more detail to follow in the next quarter's report.

7.3 The Fund offers a large variety of member support through various channels, and we appreciate that members require swift and easy access. With this in mind and also encompassing feedback from the Board, the Fund has produced a short Member Support Leaflet which signposts all the key information which members of the scheme may need.

7.4 The Fund's "Tea & Teach" sessions are currently being planned for the months of May to June. We are hoping to partner up with local organisations to provide as much support and literature as possible for our pensioners. Feedback will be provided in the next customer engagement update.

## **8.0 Larger Fund Events**

8.1 The Fund delivered its employer Annual General Meeting on the 30<sup>th</sup> November 2023. The event covered a variety of updates for employers and also an interactive employer panel. Feedback from the event was **29%** attendees rated it as excellent, **68%** rated it as Good and **3%** as satisfactory.

## **9.0 Financial Implications**

9.1 There are no financial implications associated with this report.

## **10.0 Legal Implications**

10.1 There are no legal implications associated with this report.

## **11.0 Equalities Implications**

11.1 The report contains no direct equalities implications.

**12.0 Other Implications**

12.1 There are no other implications.

**13.0 Background papers**

13.1 2023 Active member newsletter: [Active Member Newsletter 2023 \(wmpfonline.com\)](#)

13.2 2023 Deferred member newsletter: [Deferred Member Newsletter 2023 \(wmpfonline.com\)](#)

13.3 [October 2023 Customer Servicing update](#)

13.4 [December 2023 Customer Servicing update](#)

13.5 [March 2024 Customer Servicing update](#)

**14.0 Appendices**

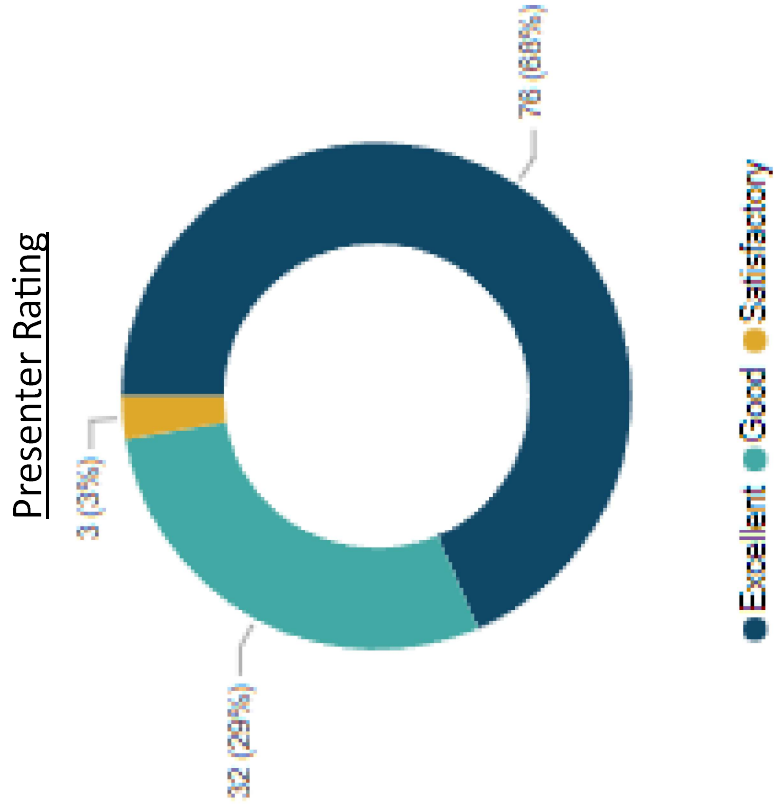
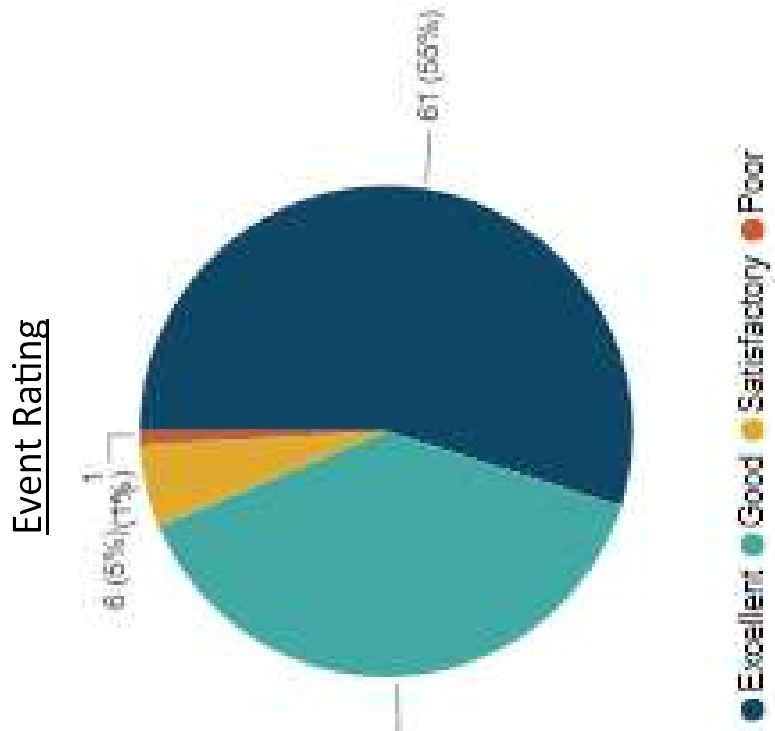
14.1 Appendix A - Review of feedback from member presentations and individual pension consultations

14.2 Appendix B – Customer Services summary

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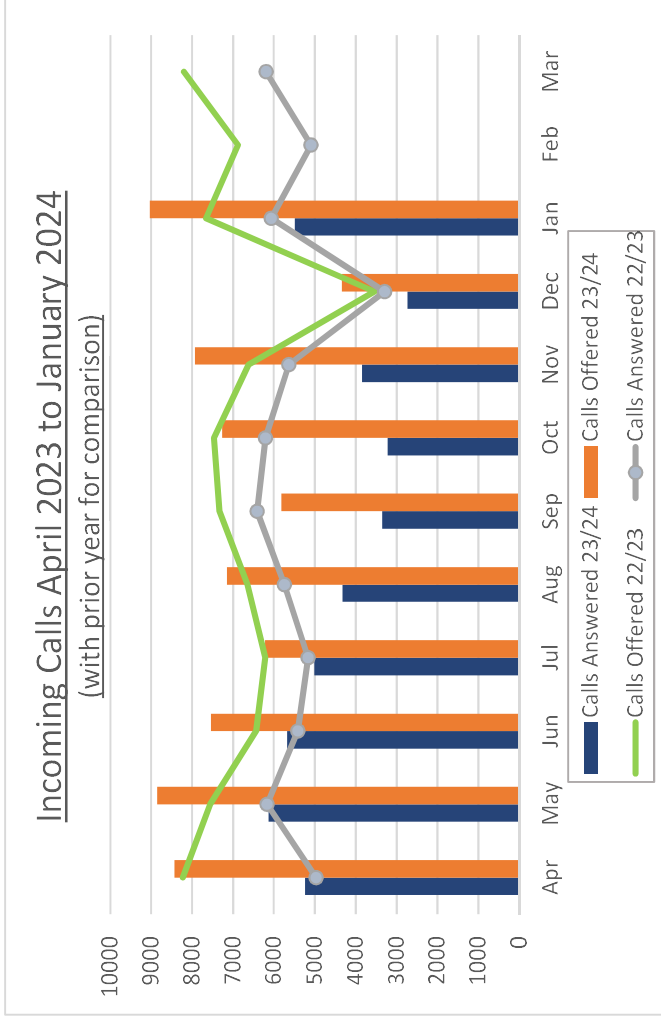


Appendix A: Member Service Team Presentation Feedback – 1 October – 31 December 2023



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## Appendix B: Customer Services Statistics



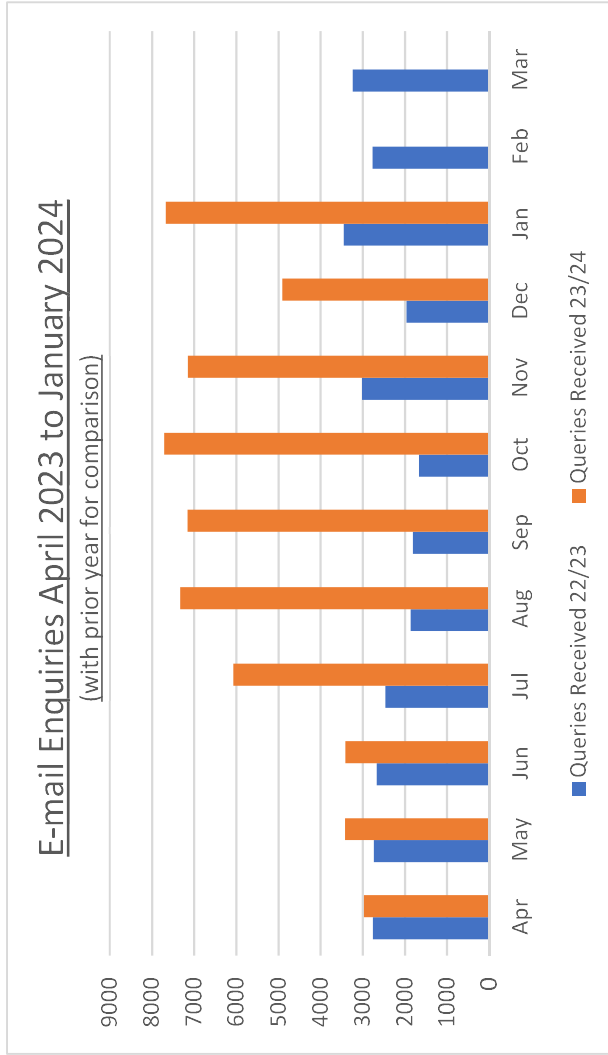
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Calls Offered 23/24	8427	8854	7537	6215	7143	5819	7262	7931	4338	9031
Calls Answered 23/24	5234	6130	5674	5012	4319	3346	3216	3842	2733	5490
Calls Offered 22/23	8231	7560	6432	6217	6647	7338	7465	6619	3540	7661
Calls Answered 22/23	4968	6171	5419	5166	5743	6414	6206	5635	3294	6064
<b>Answer Rate</b>	<b>62.11%</b>	<b>69.23%</b>	<b>75.28%</b>	<b>80.64%</b>	<b>60.46%</b>	<b>57.50%</b>	<b>44.29%</b>	<b>48.44%</b>	<b>63.00%</b>	<b>60.80%</b>

Calls Offered 23/24  
 Calls Answered 23/24  
 Calls Offered 22/23  
 Calls Answered 22/23  
 Answer Rate

### Notes

Customer call centre opening times were extended from 4 hours per day to 5 hours per day with effect from 2 January 2024  
 Calls answered during January 2024 have now returned to levels pre-go live  
 The target answer rate remains 85%  
 Call lengths average c8 minutes during January 2024, versus c6 minutes for the same period last year

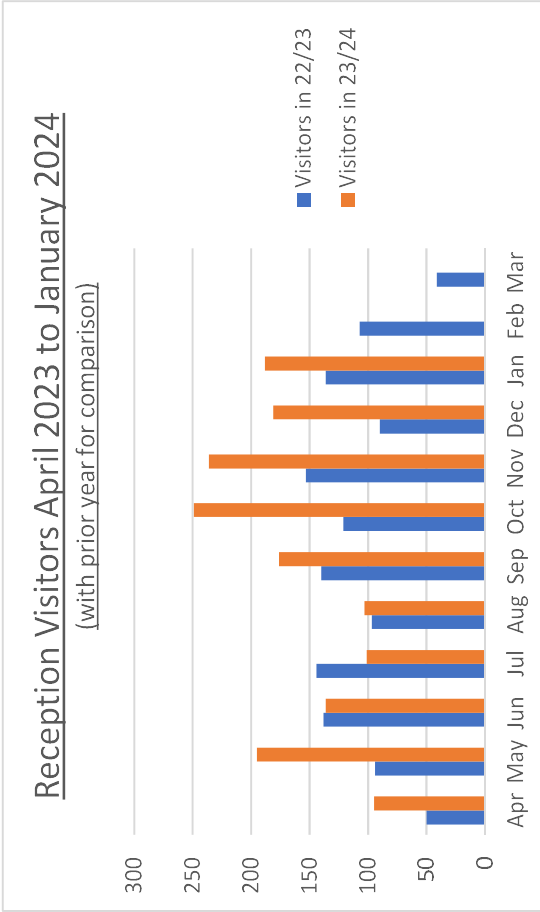
## Appendix B: Customer Services Statistics



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Queries Received 23/24	2980	3420	3412	6067	7327	7154	7707	7144	4910	7669
Queries Received 22/23	2761	2741	2665	2460	1860	1807	1662	3023	1967	3456

Queries Received 23/24  
Queries Received 22/23

**Appendix B: Customer Services Statistics**



Visitors in 23/24  
Visitors in 22/23

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
95	195	136	101	103	176	249	236	181	188
50	94	138	144	97	140	121	153	90	136

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<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 23 April 2024
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<b>Report title</b>	Regulatory Update	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Rachel Howe Email	Head of Governance, Risk and Assurance <a href="mailto:Rachel.howe@wolverhampton.gov.uk">Rachel.howe@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:rachel.brothwood@wolverhampton.gov.uk">rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for action:**

The Pensions Board is asked to note:

1. Developments within the current regulatory environment in which the Fund operates.



## **1.0 Purpose**

- 1.1 To provide members of the Board with an update on the regulatory environment, potential forthcoming changes across the Local Government Pension Scheme (LGPS) and the wider pensions industry, as particularly relevant to the Fund at this time.

## **2.0 The Pensions Regulator's – General Code of Practice**

- 2.1 The Pensions Regulator's (tPR) General Code of Practice (previously known as the Single Code of Practice) was laid in parliament on 10 January 2024 and came into effect on 28 March 2024, a link to the General Code has been provided in the background papers to this report. As previously reported to this Board, the regulator consulted on the implementation of their general code in March 2021 with the Fund participating in a number of roundtables feeding into the consultation and discussion on its contents.

- 2.2 The General Code combines the Regulator's previous 10 codes into one single general code covering the following areas:

- The Governing Body
- Funding and Investment
- Administration
- Communications and Disclosure
- Reporting to the tPR

- 2.3 The general code covers all pension funds, not just the public sector/LGPS, and while there is some debate on its full application to the LGPS, the Fund recognises that the Code seeks to effect good standards of governance and sees it as an opportunity to develop standards of good practice. Whilst the code is not a fundamental change from the previous public sector pension scheme code, it does include new areas of focus, including investment governance, climate reporting and cyber risk. All areas the Fund has been working to develop its approach and assurance in recent years, including through investment reporting and cyber assurance.

- 2.4 The Fund are in the process of reviewing the gap analysis undertaken during 2021 on the draft code to identify any new areas included in the final version and will review its compliance with the standards set as further industry understanding develops of the Code and its application to the LGPS.

## **3.0 Scheme Advisory Board (SAB) Annual Report Guidance and Key Performance Indicators**

- 3.1 The Scheme Advisory Board's Compliance and Reporting Committee has a workstream to update the 2019 Chartered Institute of Public Finance and Accountancy (CIPFA) statutory guidance "Preparing the Annual Report". A volunteer group from across the LGPS Funds has been working with SAB to provide feedback on the current guidance noting areas for development.

- 3.2 The revised Annual Report Guidance was jointly published by SAB and CIPFA on 28 March 2024 and applies to annual reports for the financial year ending 31 March 2024 (due to be published by 1 December 2024), links to this guidance and relevant news articles have been provided in the background papers to this report. In line with the Chancellor's budget speech on 6 March, LGPS funds have been asked to report certain information on asset allocation from 2024. The Fund will continue to review and work to comply with reporting requirements arising from the proposed changes. As expected, the new guidance increases the reporting requirements for LGPS funds, including those on asset allocation and investment pooling arrangements, in line with the outcome of the Government's investment consultation in November 2023.
- 3.3 Also contained within the guidance is a new set of Administration Key Performance Indicators (KPIs), focusing on casework, processing times, communication, data quality and resources, with the aim of collating a standardised set of information across LGPS funds to inform a broader assessment of value for money delivered by administration functions (as opposed to focus on a single point of cost per member). KPIs developed by SAB are not a new concept; when the Board was first created it developed a set of standard KPIs for LGPS Funds to benchmark against an agreed set of standards.

#### **4.0 McCloud Remedy**

- 4.1 In 2014, the LGPS changed from a final salary scheme to a career average scheme. Older members who were closer to retirement were protected from these changes. When a protected member retired, their pension fund compared the career average pension they built up before age 65 with the pension they would have built up in the final salary scheme. If the final salary pension was higher, the difference was added to their pension. This protection is called the underpin.
- 4.2 Following a court case brought by the firefighters and judges pension scheme, the courts determined that the ruling was discriminatory on grounds of age as it only protected those members who fell into the older age category, being within 10 years of retirement. Now, as a result of that ruling, all public sector pensions, including the LGPS are required to remedy the discrimination created by the underpin protection and revisit pension calculations, including those in payment to ensure there has been no detriment to the member as a result of the judged discrimination.
- 4.3 The Fund has reported to Board previously, the work required to rectify the member pensions affected by McCloud, launching a data onboarding project required to obtain relevant data from employers for those members affected by the underpin. That work continues as we look to rectify hours and pay data required to recalculate benefits.
- 4.4 In addition to the data gathering exercise, the Fund then needs to go through the process of reviewing member records in line with the remedy and applying amended benefit calculations where required.

- 4.5 At this time, the Fund is awaiting confirmed remedy proposals, having received initial guidance on certain elements which are in the process of being reviewed and understood.
- 4.6 Third Party administrators, including those used by the Fund are involved in national groups to understand the implications of the remedy and how it needs to be implemented into pension administration systems.

## **5.0 Procurement Act 2023**

- 5.1 The new Procurement Act received Royal Assent in October 2023 and seeks to bring about changes to the Public Contract Regulations 2015. It is anticipated that the new Act will come into force in the Autumn and brings with it a number of changes to how public procurements are managed and reported. One of the main areas of change relates to transparency and ongoing contract management and reporting, including requirements to develop and report on an annual basis Key Performance Indicators of the delivery of services provided.
- 5.2 The Fund is working with the Council to understand the changes and develop internal processes for ensuring the ongoing effective management of contracts.

## **6.0 Sharia Law**

- 6.1 As previously reported to the Board, in 2022 the Scheme Advisory Board (SAB) considered legal advice regarding members opting out of the LGPS on the basis of their religious beliefs, following which an expert in Islamic finance was commissioned to report on whether the LGPS is Sharia compliant.
- 6.2 That report has now been received and concluded that Muslim employees can continue to contribute to, and benefit from, the LGPS. A link to the full report has been provided in the background papers to this report.
- 6.3 SAB have since published further advice on the content of the report, a link to which has been provided in the background papers of this report.

## **7.0 Other Regulatory Changes**

### **7.1 Economic Activity of Public Bodies (Overseas Matters) Bill**

- 7.1.1 A bill seeking to remove the possibility for public bodies, including councils, to campaign against, boycott, seek divestment from or sanction a particular territory, unless endorsed by the Government's own foreign policy. It applies to all aspects of public investment or procurement and is not limited to pension investments specifically. The Bill continues to work through the parliamentary process, with a number of amendments being proposed and debated. A link to a meeting held by SAB on 11 March 2024, providing recent updates on progression of the Bill, is provided within the background papers of this

report. The Board will further be updated as the legislation and regulatory framework comes into effect.

- 7.1.2 Investment decisions of the Fund are taken in line with the fiduciary duty to ensure returns to pay the long term pension benefits as they fall due, requiring the Fund to make prudent investment decisions based on assessment of the financial consequences, including environmental, social and governance (ESG) matters.

## **7.2 Abolition of the Lifetime Allowance**

- 7.2.1 In November 2023 HM Treasury announced that the lifetime allowance will be abolished from 6 April 2024. Before this date, if the value of pension benefits when taken exceeded the lifetime allowance a member was required to pay tax on their benefits. While the removal of the lifetime allowance will be beneficial to members, there are practical considerations that Funds will need to consider when implementing the guidance. Further guidance was published on 22 March 2024, a link to which has been provided in the background papers of this report.

## **7.3 Pensions Dashboards**

- 7.3.1 Pensions Dashboards is a national initiative which aims to get people more engaged with their pensions by having all their pensions in one place. Through a central “exchange” individuals will be able to search all the pensions they have, with who, and find out how to contact the organisations. Understanding the potential combined value of those pensions is intended to aid retirement saving and planning.
- 7.3.2 The Pensions Dashboard program continues to move at pace with the deadline for LGPS Funds to be “connection ready” by 31 October 2025 as outlined in the staged timetable guidance, published by the government on 25 March 2024. A link to this document has been provided in the background papers to this report. In November guidance was issued outlining the stages for Administering Authorities to ensure connection to the Dashboards with third party administrators and system providers part of a wider working group to ensure administration systems are ready for the switch on. The Fund has been actively supporting the program being a founder in the National LGPS Frameworks for integrated service providers (ISP) and Data Services, which will provide options for Funds to procure relevant providers in support of the connection requirements. The Fund is working with its software provider to understand the options and services available through their platform.

## **8.0 Financial Implications**

- 8.1 There are no direct financial implications.

## **9.0 Legal Implications**

- 9.1 Noncompliance with statutory requirements could result in the Fund receiving a fine or enforcement action from the Pensions Regulator and/or judicial review for maladministration from the Department (DLUHC).

## **10.0 Equalities Implications**

- 10.1 There are no direct equalities implications.

## **11.0 Other Implications**

- 11.1 There are no potential other implications.

## **12.0 Schedule of Background Papers**

- 12.1 The Pensions Regulator's – General Code of Practice: [TPR general \(single\) code of practice | The Pensions Regulator](#)
- 12.2 Revised Annual Report and Accounts Guidance: [Preparing the Pension Fund Annual Report - Guidance for Local Government Pension Scheme Funds \(APRIL 2024\) \(lgpsboard.org\)](#)
- 12.3 SAB News Article 28 March 2024 including information relating to Preparing the Pension Fund Annual Report: [LGPS Scheme Advisory Board - Home \(lgpsboard.org\)](#)
- 12.4 SAB – An opinion on the Shariah Compliance of Pension Benefits for Muslim Members of the LGPS:  
[lgpsboard.org/images/Reports/ShariaandLGPS/An\\_Opinion\\_on\\_the\\_Shariah\\_Compliance\\_of\\_LGPS.pdf](#)
- 12.5 Summary of further legal opinion from Lydia Seymour on Sharia Law and the LGPS: [LGPS Scheme Advisory Board - Legal Opinions \(lgpsboard.org\)](#)
- 12.6 SAB Hybrid Meeting 11 March 2024: Economic Activity of Public Bodies (Overseas Matters) Bill Update:  
[11032024\\_Item5PaperB\\_Economic\\_Activity\\_of\\_Public\\_Bodies\\_Overseas\\_Matters\\_Bill\\_Update.pdf \(lgpsboard.org\)](#)
- 12.7 Abolition of the Life-Time Allowance Administrator Guide: [LGPC Bulletin 249 - March 2024 \(lgpslibrary.org\)](#)
- 12.8 Staged timetable for being connection ready to the Pension Dashboard: [Pensions dashboards: guidance on connection: the staged timetable - GOV.UK \(www.gov.uk\)](#)

## **13.0 Schedule of Appendices**

- 13.1 None.

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Pensions Board</b> 23 April 2024
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<b>Report title</b>	Risk and Assurance	
<b>Originating service</b>	Pension Services	
<b>Accountable employee</b>	Rachel Howe Email	Head of Governance, Risk and Assurance <a href="mailto:Rachel.Howe@wolverhampton.gov.uk">Rachel.Howe@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:Rachel.Brothwood@wolverhampton.gov.uk">Rachel.Brothwood@wolverhampton.gov.uk</a>

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**Recommendations for action:**

The Pensions Board is asked to note:

1. The latest Strategic Risk Register and areas being closely monitored in the current environment.
2. The Fund's engagement with the Pensions Regulator.
3. Review and development of the Fund's Business Continuity Planning Framework.
4. The compliance monitoring activity undertaken during the quarter.

## **1.0 Purpose**

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

## **2.0 Risk Register**

- 2.1 The Risk Register captures the potential for impact in the Fund's service delivery as a forward-looking review, together with horizon scanning for changes which may impact or require change to the Fund's processes and delivery model. As such, the risks are refreshed each quarter and the directional arrows therefore reflect the trend on the risk assessment pre and post actions and mitigations (as opposed to a quarter-by-quarter comparison).
- 2.2 This quarter the Fund is alive to the current impact the business change program is having on its customers and wider stakeholders, noting the potential for impact on both the Fund's reputation as a high standard service provider and customer confidence. In addition, the current working environment continues to impact staff attrition rates with market competition and increased pull on current resource in the delivery of business change.
- 2.3 Regulatory risk continues to be of focus, noting the ongoing considerations on governance and oversight together with the current economic and market risk as the Fund looks to implement its investment strategy.
- 2.4 The risk register is attached at appendix A.

## **3.0 Compliance Monitoring**

### **3.1 Data Protection**

- 3.1.1 This quarter the Fund are reporting six data breaches. Analysis of the breaches has confirmed that each would be considered low risk on balance of the personal information subject to the breach and how it might be used.

The Governance team continue to monitor breaches and identify actions to improve controls. The Fund hasn't identified any systemic issues in the management of its data and the Governance team continues to work with service areas to implement ongoing enhancements in systems and individual knowledge. Where errors have occurred, feedback and, if necessary additional training, is provided to Managers and Fund employees by the Governance team.

### **3.2 Freedom of Information (FOI) Requests**

- 3.2.1 The Fund received two FOI requests during the quarter, both of which were responded to in accordance with the statutory deadlines. Information requests this quarter related to the Fund's investment holdings and queries regarding timescales for benefit processing.



### **3.3 Subject Access Requests (SARs)**

3.3.1 The number of SAR requests received this quarter has increased by three, with nine requests being received in total. The statutory deadline for responses was met for eight out of nine requests received, with a delay in one instance caused by a delay in the request being sent to the relevant team within the Fund, it is noted that actions have been put in place to prevent further instances. Three of the requests received were from third party companies and six were received directly from members. As reported previously to Board, members are always made aware of third-party requests for personal data and the Fund always obtains consent from the member prior to releasing information to third parties monitoring such requests for potential fraud in line with the Fund's commitment to the Pension Regulator's Pension Scam Pledge.

### **4.0 Customer Assurance**

4.1 The Governance Team are supporting customer assurance activities during what can be an uncertain time for members following the Fund's system transition. Support includes individual case review and management and providing assistance with response to customer queries and complaints. This includes continuing to respond and provide advice in relation to member safeguarding concerns.

### **5.0 Annual Report and Accounts**

5.1 In accordance with the statutory deadline of 1 December 2023, the Fund's Annual Report and Accounts have been published on the Fund's website, a link to which is included within the background papers of this report.

5.2 As well as being published in the Fund's own Annual Report, the Fund's accounts are included in the Statement of Accounts of the City of Wolverhampton Council (CWC). The Fund's accounts were agreed with the external auditor, Grant Thornton, on 20 February 2024 at the same time as CWC's accounts. The external auditor provided an unmodified audit opinion.

### **6.0 Engagement with the Regulator**

6.1 This quarter, the Fund has completed and submitted the Pensions Regulator's (TPR) annual scheme return, in accordance with the deadline set by the Regulator. The scheme return is completed annually and is used by the regulator to gather information about pension schemes and to identify potential risks. The Fund has actively reached out to the Regulator regarding its Active Benefit Statement production, as reported to Committee last quarter, linked to the transition of its Administration System transition.

6.2 In addition, the Fund has engaged with the Regulator in response to enquiries regarding current financial challenges faced by Fund employers, as noted within the Risk Register, and any considerations or impact this may have for the Fund.

## **7.0 Business Continuity Planning**

- 7.1 It is vital that, in the event of a disruptive incident, the Fund is able to provide a sufficient level of assurance on its ability to continue to deliver priority business activities to adequately service members whilst ensuring that business-as-usual (BAU) service delivery is resumed as quickly as possible and within an acceptable timescale. This assurance is gained through having a robust and fit-for-purpose approach to Business Continuity Planning.
- 7.2 The Fund's previous Business Continuity Plan was last reviewed in response to the Coronavirus pandemic and prior to the Fund's relocation to its purpose built office at i9. These significant developments have changed the way in which the Fund would respond to a potentially disruptive incident, further supported by the introduction of hybrid working.
- 7.3 In undertaking a considerable amount of cross team engagement, documenting key operational interdependencies, and identifying alternative methods of service delivery, the Fund has sufficiently assessed its capabilities, and weaknesses, to responding to a business continuity incident.
- 7.4 The Fund has adopted a more comprehensive Business Continuity Planning framework to support in developing greater operational resilience against threats and challenges. The framework has been developed in adherence with the Business Continuity Institute's (BCI) Good Practice guidelines. The framework includes:
- Business Continuity Policy Statement (Strategic)
  - Business Continuity Programme (Tactical)
  - Business Continuity Team Action Plans (Operational),
- 7.5 Following the adoption of the Business Continuity Planning Framework, the Governance team will develop a validation programme to test the framework, providing further assurance on the Fund's ability to respond in the event of an identified disruptive incident.

## **8.0 Financial Implications**

- 8.1 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. Poor management of the Fund's data, financial information and assets can result in additional costs and detract from investment returns.
- 8.2 Failure by the Fund to meet statutory requirements of effective governance and administration could result in fines imposed by the Pensions Regulator (tPR).

## **9.0 Legal Implications**

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

## **10.0 Equalities Implications**

10.1 There are no direct equalities implications.

## **11.0 Other Potential Implications**

11.1 There are no other potential implications.

## **12.0 Schedule of Background Papers**

12.1 Final Annual Report and Accounts 2022-23: [Corporate information | West Midlands Pension Fund \(wmpfonline.com\)](https://www.wmpfonline.com)

## **13.0 Schedule of Appendices**



13.1 Appendix A: Strategic Risk Register.


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Strategic Risk Register

March / April 2024

Risk Ref	Risk Theme	Risk Title	Current Drivers	Corporate Priority	Pre-control Risk Assessment	Post Control Risk Assessment	Risk Outcome post control	Actions/Mitigations	Senior Officer(s) responsible for Action
1	Customer Servicing	<p>The ability of the Fund to maintain high standards of service delivery during periods of business change and transition together with the potential impact on customer and stakeholder confidence.</p> <p>Service delivery by third party providers and their ability to keep the pace of delivery required in meeting Fund requirements and operations.</p>	<p>Ongoing system development to meet customer needs and improve overall experience resulting in servicing impacts as the fund undergoes transformational change.</p> <p>The potential for divergence in outcomes across partner organisations and the ability of providers to service and respond to the differing asks.</p>	Operational Resilience Compliance and Risk People and Customers				<p>The Fund continues to be alive to the ongoing impact on customer servicing, seeking to respond to concerns and support individual member needs, and is engaging with stakeholders across the wider region.</p> <p>The Fund has ongoing monitoring of supplier performance and delivery in line with contract management procedures.</p>	ALL
2	Resource Risk	<p>The Fund's ability to retain resource in the ongoing environment of change and heightened volumes of service delivery with increased ask on certain roles.</p> <p>Potential for impact on ability to recruit talent and resource where there is potential for impact on reputation and confidence in the Fund as an employer.</p> <p>Ongoing competition across the wider market and known competition for salary and location of work.</p>	<p>The additional pull on individual knowledge and skills in support of the program of business change against normal BAU roles.</p> <p>The potential impact on the Fund's marketability as an employer where public awareness is heightened on the current operating environment.</p> <p>Increased market demand for specialist and scarce resource, creating turnover risk.</p>	People and Customers Operational Resilience				<p>The Fund continues to work with CWC HR to understand the various options for managing retention risk and ensuring employee recognition.</p> <p>The Fund routinely reviews resourcing requirements and roles, informed by market research and benchmarking.</p> <p>The Fund actively seeks additional and/or specialist support to aid resilience.</p>	ALL

Risk Ref	Risk Theme	Risk Title	Current Drivers	Corporate Priority	Pre-control Risk Assessment	Post Control Risk Assessment	Risk Outcome post control	Actions/Mitigations	Senior Officer(s) responsible for Action
3	Regulatory	There continues to be an increased focus on the governance and regulation of LGPS Funds, including investment governance and decision making.  Publication of the tPR's Code of Practice, the pending Scheme Advisory Board Administration KPIs and amended Annual Report Guidance may see an increased ask on reporting metrics	The Fund will need to review and respond to both cross-cutting industry themes and LGPS-specific consultation, focusing on the key issues for the Fund in the short and longer term where these may result in wide-ranging change impacting a number of service areas (across investment and pension administration functions)  Increased reporting requests incoming from regulatory/national bodies in areas of investment, climate, funding, customer servicing, with limited common industry standards and potential for discrepancy with reporting useful information to the Fund for management and assurance purposes.	Operational Resilience  Compliance and Risk  People and Customers				The Fund continues to monitor developing policy and regulatory ambition, actively taking the opportunity to engage with the LGPS and wider pensions-sector to contribute to consultation responses, thereby having a proactive insight and voice to the potential change and response required.  The Fund continues to review its resourcing needs both in relation to systems and people, in managing increased asks and emerging demands for data and reporting.	ALL
4	Economic Environment	Increased costs in service provision  Employer budgets/funding	Continued cost of living and inflation pressures adding to increased cost to service delivery from third party suppliers as well as making products more expensive to buy from market.  Continued pressures on employer finances in light of budget strains could see increased use/ask for employer flexibilities and/or funding and contribution considerations.	Operational Resilience  Compliance and Risk  People and Customers				The Fund has a long term outlook to funding and has an established employer risk management framework to support the review of covenant, including extended engagement and consideration of contribution and funding risks.	ADP, EDOP HoF

Risk Ref	Risk Theme	Risk Title	Current Drivers	Corporate Priority	Pre-control Risk Assessment	Post Control Risk Assessment	Risk Outcome post control	Actions/Mitigations	Senior Officer(s) responsible for Action
5	Investments	<p>Economic impacts on the Fund's investments led by geopolitical issues and wider market volatility.</p> <p>Delay to investment strategy implementation and strategic asset allocation changes</p> <p>Risk of pace across LGPS Investment Pooling</p>	<p>Review and change in asset allocation and implementation takes longer than anticipated.</p> <p>Government has released it's outcome to the consultation on the future of LGPS Investments which seeks to drive forward the pooling agenda and steer asset allocation. The Fund is reliant on partners to further develop the long-term direction for LGPS Central pool.</p>	<p>Investment strategy implementation</p> <p>Operational resilience</p> <p>Compliance and Risk</p>				<p>The Fund continues to work with its advisors to understand potential impacts and change needed to delivery investment strategy as market conditions evolve.</p> <p>The Fund continues to support the overall outcomes from potential benefits to be achieved by pooling and engage in dialogue to support in realising.</p>	ADIS ADIMS EDOP HGRA

Officers Responsible for Action

EDOP	Executive Director of Pensions
ADIS	Assistant Director Investment Strategy
ADIMS	Assistant Director Investment Management and Stewardship
ADP	Assistant Director Pensions
HOPs	Head of Operations
HGRA	Head of Governance, Risk and Assurance
HOF	Head of Finance

Version Control

Version	Responsible Officer	Date
Version 1	Head of Governance, Risk and Assurance	March 2024
Version 1	Head of Governance, Risk and Assurance	Reviewed end of March 2024



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