



Pensions Committee

25 June 2014

Time 10.00 am **Public Meeting?** YES **Type of meeting** Finance
Venue Committee Room 3 - Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

Membership

Chair Cllr Bert Turner (Lab)
Vice-chair

Labour

Cllr Peter Bilson
Cllr Ian Brookfield
Cllr Val Evans
Cllr Jasbir Jaspal
Cllr Lorna McGregor
Cllr Phil Page
Cllr Sandra Samuels
Cllr Tersaim Singh

Conservative

Cllr Zahid Shah
Cllr Paul Singh

Liberal Democrat

Cllr Michael Heap

District Members

Cllr Rachel Harris (Dudley Metropolitan Borough Council)
Cllr Damian Gannon (Coventry City Council)
Cllr Steve Eling (Sandwell Metropolitan Borough Council)
Cllr Alan Rebeiro (Solihull Metropolitan Borough Council)
Walsall Metropolitan Borough Council to be notified
Birmingham City Council to be notified

Trade union observers

Mr Malcolm Cantello
Mr Martin Clift
Mr John Daly
Mr Ian Smith

Quorum for this meeting is four Councillors.

Information for the Public

If you have any queries about this meeting, please contact the democratic support team:

Contact Carl Craney
Tel/Email 01902 555046 or carl.craney@wolverhampton.gov.uk
Address Democratic Support, Civic Centre, 2nd floor, St Peter's Square,
Wolverhampton WV1 1RL

Copies of other agendas and reports are available from:

Website <http://wolverhampton.cmis.uk.com/decisionmaking>
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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 | Apologies for absence (if any) |
| 2 | Notification of Substitute Members |
| 3 | Declaration of Interests (if any) |
| 4 | Minutes (Pages 1 - 12)
(a) Pensions Committee – 26 March 2014
(for approval)

(b) Investment Advisory Sub Committee – 26 March 2014
(for approval) |
| 5 | Matters arising |
| 6 | Appointment of Sub Committee and Panel and dates of meetings 2014/15
(Pages 13 - 16)
[To appoint Members and Chair's and Vice Chair's of the Sub Committee and Forum and to confirm dates and times of meetings of the Committee, Sub Committee and Forum][|
| 7 | Pensions administration report (Pages 17 - 36)
[To inform the Committee of the work undertaken by the Pensions Administration Service during the period 1 January 2014 to 31 March 2014] |
| 8 | Compliance monitoring (Pages 37 - 40)
[To receive a report on the findings of the quarterly Compliance Monitoring Programme together with any other compliance issues] |
| 9 | Draft final accounts and outturn (Pages 41 - 52)
[To present to Members the draft 2013/14 Statement of Accounts operating outturn and service planning for West Midlands Pension Fund and provide an update to the Fund's financial and business plan monitoring] |
| 10 | Shareholder activity (Pages 53 - 90)
[To receive, for information, details of Shareholder activity] |
| 11 | Local Government Pension Scheme (LGPS) 2014 (Pages 91 - 94)
[To receive an update on the implementation of the LGPS 2014] |
| 12 | Governance Reform 2014 (Pages 95 - 104) |

[To receive an outline of the proposed changes to the Governance structure within the Local Government Pension Funds following the Public Services Pensions Act 2013 and associated legislation, to consider options for future governance structure including consultation proposals and to consider the appointment of a Working Party to consider the options and to make recommendations to the Council thereon]

- 13 **Trustee training** (Pages 105 - 110)
[To receive details of the training undertaken by Trustees to the period ending 31 March 2014]
- 14 **Trustee update report** (Pages 111 - 120)
[To receive an update on the management arrangements and the special role of Trustees in respect of the discharge of the functions associated with the relevant pension regulations and legislation, proposals for governance reform and training requirements]
- 15 **Update of Fund strategy and policy statements** (Pages 121 - 146)
[To receive an update on the changes and updates required to the Fund's Strategy and Policy Statements detailing reasons for those changes]
- 16 **Investment policy and performance report** (Pages 147 - 156)
[To receive details of the Fund's investment policy and performance for the year ended 31 March 2014 and proposed changes to strategic risk bands from 1 July 2014]
- 17 **2014 budget and the impact for pensions** (Pages 157 - 160)
[To receive details of the key 2014 Chancellor of the Exchequer's statement and the impact on Pension Schemes and, in particular, the Local Government Pension Scheme]
- 18 **Administering authority policy discretions** (Pages 161 - 176)
[To consider the proposed Administering Authority's Policy Discretions]
- 19 **West Midlands Pension Fund Internal Audit plan 2014/15** (Pages 177 - 190)
[To consider the 2014/15 Internal Audit plan for the West Midlands Pension Fund]
- 20 **Local Government Pension Scheme (LGPS) reform consultation** (Pages 191 - 206)
[To receive details of the Fund's response to the Department for Communities and Local Government (DCLG) May 2014 consultation on Local Government Pension Scheme reform]
- 21 **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 on the grounds shown below]

Part 2 – exempt items, closed to the press and public

22 Investment portfolio valuation

[To receive an details on the Investment Portfolio Valuation as at 31 March 2014 – a copy will be available at the meeting]

Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)

23 Employer covenant update report (Pages 207 - 214)

[To receive an update on the monitoring of employer covenants by the Fund]

Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)

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Pensions Committee

Minutes – 26 March 2014

Attendance

Members of the Committee (Wolverhampton CC)

Cllr Bert Turner (Chair)
Cllr Peter Bilson
Cllr Mark Evans
Cllr Steve Evans
Cllr Mike Heap
Cllr Andrew Johnson
Cllr Lorna McGregor
Cllr Tersaim Singh

Trade union observers

Mr Malcolm Cantello (Unison)
Mr Ian Smith (Unite - retired)

District members

Cllr Muhammed Afzal (Birmingham CC)
Cllr Damian Gannon (Coventry CC)
Cllr Rachel Harris (Dudley MBC)
Cllr Alan Martin (Solihull MBC)
Cllr Vic Silvester (Sandwell MBC)

Employees

Geik Drever	Director of Pensions
Mark Chaloner	Assistant Director – Pensions
Simon Taylor	Interim Head of Pensions
Carl Craney	Democratic Support Officer

Part 1 – items open to the press and public

Item Title
No.

MEETING BUSINESS ITEMS

- Chair's Announcement

The Chair, Cllr Bert Turner, drew to attention of the Committee that Cllr Allan Martin (Solihull MBC) would be retiring as an Elected Member at the forthcoming municipal elections and extended on behalf of the Committee, his best wishes for a long and happy retirement. Geik Drever extended her thanks to Cllr Martin for his support of the West Midlands Pension Fund and to its Officers.

1. **Apologies for Absence**

Apologies for absence were submitted on behalf of Cllrs Mrs Sandra Samuels and John Reynolds (Wolverhampton), Martin Clift (Unite) and John Fender (John Fender Consultancy).

2. **Substitute Members**

No substitutes had been appointed for this meeting.

3. **Declarations of Interest**

No declarations of interests were made in relation to items under consideration at the meeting.

4. **Minutes**

(a) Pensions Committee (8 January 2014)

Resolved:

That the minutes of the meeting held on 8 January 2014 be approved as a correct record and signed by the Chair.

(b) Pensions Joint Consultative Forum (3 March 2014)

Resolved:

That the minutes of the meeting held on 3 March 2014 be received.

5. **Matters Arising**

There were no matters arising from the minutes of the Pensions Committee (8 January 2014) or the Pensions Joint Consultative Forum (3 March 2014).

6. **Compliance Monitoring**

Geik Drever presented a report on the findings of the quarterly compliance monitoring programme. She drew to the attention that no compliance issues had arisen during this monitoring period.

Resolved:

That the report be received and noted.

7. **Pension Administration report 1 October to 31 December 2013**

Geik Drever reminded the Committee that Nadine Perrins, Head of Pensions had retired from the Council's service on Friday 21 March 2014 and that Simon Taylor had been appointed as Interim Head of Pensions.

Simon Taylor presented the pension administration report for the period 1 October to 31 December 2013.

Resolved:

1. To agree the admission of the undermentioned as participating employers:
 - Alliance in Partnership – Ryders Hayes Academy Trust;
 - CUE Ltd;
 - Kingswood Trust;
 - Alliance in Partnership – Unity Catering;

- ACPOA Parking – Wolverhampton;
 - Aspen Services – Courthouse Green;
 - Aspen Services – Stanton Bridge;
 - Catering Academy (Coventry);
 - Churchill Contract Services Ltd (Birmingham);
 - Churchill Contract Services Ltd (Walsall);
2. To note the contents of the report, in particular the write offs/ons and the applications received for admission which had been approved by the Director of Pensions in consultation with the Chair and Vice Chair of the Committee, namely:
- Aspen Services Ltd (Courthouse Green);
 - Caterlink (Birmingham Metropolitan College);
 - DRB Contract Cleaning Ltd (Walsall).

8. **Service Plan Monitoring 2013/14**

Geik Drever presented an update report on service plan monitoring 2013/14.

Resolved:

That the report, including financial monitoring along with the Fund's key performance indicators be received and noted.

9. **Pension fund business plan 2014 – 2019**

Geik Drever presented a report on the draft 2014 – 19 business plan including the medium term financial plan and 2014/15 operating budget. Subject to the approval of the Committee the Plan would be formatted in line with Fund documentation and published on the website. She responded to questions from Councillors in relation to the anticipated growth of the scheme given the anticipated reduction in employee headcount and a discrepancy in figures between reports.

Resolved:

That the draft 2014 – 19 Service Plan including the medium term financial plan and 2014 -15 operating budget be approved, subject to minor typographical amendments.

10. **West Midlands Pension Fund (WMPF) Medium Term Financial Plan Update and 2014/15 Operating Budget**

Geik Drever presented the supporting medium term financing statement to the Fund's Business Plan.

Resolved:

1. That the 2014 – 19 Medium Term Financial Plan and 2014/15 operating budget be approved;
2. That the indicative budgets for 2015 – 2019 be noted.

11. **Assurance Framework supporting the Annual Governance Statement – April 2014**

Geik Drever presented a report which outlined the Assurance Framework supporting the Annual Governance Statement – April 2014.

Resolved:

That the report, including the background to the Assurance Framework and updated operational practices be received and noted.

12. **Local Government Pension Scheme 2014 (LGPS - 2014) Update Report**

Geik Drever presented a report which updated the Committee on the latest position with the Local Government Pension Scheme 2014 (LGPS - 2014) following the informal consultation in the summer of 2013, the presentation of the LGPS Regulations 2013 to Parliament and the finalisation and publication of the Transitional Regulations on 10 March 2014. She advised that further information was still awaited from the Department for Communities and Local Government (DCLG) and that given the number of employees who would be leaving the service in March/April 2014 a backlog would ensue until such time as the precise details of the transitional arrangements were received. Payments would be made to members on account and would be finalised as soon as the systems were ready.

She reported on the substantial amount of information which had been made available to employers in relation to the changes together with the attendance of employees at Roadshows and in excess of 3,000 telephone queries responded on some days by the Pensions Team.

Resolved:

That the activity and progress to date in respect of the new 2014 LGPS scheme and the impact of the delays to the finalisation of the Regulations be noted.

13. **Governance Information for Trustees**

Geik Drever presented a report which provided information on the specialist role undertaken by members of the Pensions Committee, advice and support available to those members, summarised the position of the Pensions Regulator proposals for regulating Public Service Pension Schemes and outlined proposed schedule of meetings for the 2014/15 Municipal Year. She responded to questions posed on several matters. Councillors were asked to be mindful of the sensitivity and confidentiality of discussions on exempt items on the Agenda.

Resolved:

1. That the proposals to hold meetings of the Investment Advisory Sub Committee and Pensions Committee on the same day be approved;
2. That the Fund governance information detailed in the report be noted;
3. That briefings for members be held as required;
4. That the options for a third meeting of the Pensions Joint Consultative Forum in the 2014/15 Municipal Year be considered in due course.

14. **Communications Strategy 2014**

Simon Taylor presented the communications Strategy 2014 which had been prepared in accordance with the requirements of the LGPS (Amendment) (No 2) Regulations 2005, as amended.

Resolved:

That the updated Communications Strategy be approved.

EXCLUSION OF PRESS AND PUBLIC

15. **Exclusion of press and public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) of business as they involve the likely disclosure of exempt information falling within the paragraphs of Schedule 12A of the Act set out below:

<i>Item No.</i>	<i>Title</i>	<i>Applicable paragraph</i>
16	Investment Portfolio Valuation – December 2013	3
17	West Midlands Pension Fund Risk Register	3
18	Actuarial Valuation 2013 - Update	3
19	External Investment Advice	3

Part 2 – exempt items, closed to the press and public

16 Investment Portfolio Valuation – December 2013

The Investment Portfolio Valuation – December 2013 was presented and Councillors invited to submit any questions and/or comments to Geik Drever.

Resolved:

That the investment Portfolio Valuation – December 2013 be received.

17. West Midlands Pension Fund Risk Register

Geik Drever presented the West Midlands Pension Fund Risk Register and reminded the Committee that this document was reviewed on a quarterly and an annual basis. She drew to the attention of the Committee that seven of the Risks had a score of ten or more and would be referred to in both the Annual Report and the Annual Governance Statement.

Malcolm Cantello suggested that the Risk Register be amended inasmuch as responsibility for responses to risks 13, 14 and 26 should include the Pensions Committee rather than solely the Director of Pensions.

Resolved:

That the West Midlands Pension Fund Risk Register be approved subject to responsibility for responses to risks 13, 14 and 26 being amended to include the Pensions Committee.

18. Actuarial Valuation 2013 Update

Geik Drever presented a report which provided an update on the 2013 actuarial valuation results, the distribution of finalised results to employers and the completion of the associated documentation.

Resolved:

1. That the 2013 actuarial valuation and signing of the actuarial certificate by 31 March 2014 be approved;
2. That the Funding Strategy Statement (FSS) and Termination Policy by 31 March 2014 be approved.

19. **External Investment Advice**

Geik Drever presented a report on the annual review and fees payable for external investment advice for the year 2014/15.

Resolved:

That the external investment advice arrangements for the period to 31 March 2015 in respect of John Fender Consultancy and Hymans Robertson be approved.

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Investment Advisory Sub-Committee

Minutes – 26 March 2014

Attendance

Members of the Sub-Committee

Cllr Bert Turner (Chair)
Cllr Mike Heap

District Members:

Cllr Damian Gannon (Coventry CC)
Cllr Rachel Harris (Dudley MBC)
Cllr Alan Martin (Solihull MBC)
Cllr Vic Silvester (Sandwell MBC)

Trade Union Observers
Malcolm Cantello (UNISON)
Ian Smith – Unite (retired)

Staff

Geik Drever	Director of Pensions
Mark Chaloner	Assistant Director-Investments
Kevin Dervey	Portfolio Manager
Mike Hardwick	Portfolio Manager
Carl Craney	Democratic Support Manager

Advisors:

Mike Daggett	CBREGI
Mick Roulton	CBREGI
Graeme Johnston	Consultant – Hyman Robertson

Part 1 – items open to the press and public

<i>Item No.</i>	<i>Title</i>	<i>Action</i>
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BUSINESS ITEMS

1. Apologies for Absence

Apologies for absence were submitted on behalf of Cllr Muhammad Afzal (Birmingham CC), Cllr Peter Bilson (Wolverhampton CC), Martin Clift (UNITE), John Fender (John Fender Consultancy) and Mark Taylor (Assistant Director, Finance, Wolverhampton City Council).

2. Substitute members

None

3. **Declarations of interest**

No declarations of interest were made in relation to items under consideration at the meeting.

4. **Minutes**

Resolved:

That the minutes of the meeting held on 11 December 2013 be approved as a correct record and signed by the Chair.

5. **Matters Arising**

There were no matters arising from the minutes of the meeting held on 11 December 2013.

EXCLUSION OF PRESS AND PUBLIC

6. **Exclusion of press and public**

Resolved:

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

Part 2 – exempt items, closed to the press and public

DECISION ITEMS

7. **Investment management activity – 1 October – 31 December 2013**

The Sub Committee received a report on investment management activity for the period 1 October – 31 December 2013. The report detailed the position of each portfolio at the end of the reporting period.

In response to a question by Malcolm Cantello with regard to the difference in the figures referred to in paragraph 6.9.1 of the report Geik Drever acknowledged a typographical error.

Resolved:

That the performance and investment activity in the quarter ended 31 December 2013 be noted.

8. **Investment Management Activity – 1 October – 31 December**

2013

Details of the Investment Management Activity between 1 October – 31 December 2013 were made available for consideration

Resolved:

That the Investment Management Activity 1 October – 31 December 2013 be received and any matters arising therefrom be referred to the Director of Pensions for response.

9. **Strategic Investment Allocation Benchmark (SIAB) Update Review**

The Sub Committee received an update report on the Strategic Investment Allocation Benchmark and its implementation.

In response to a question from Malcolm Cantello, Geik Drever explained the different mixes in the equities markets which included private equity.

Resolved:

1. That the report be received;
2. That the proposals for the modifications to the strategic ranges proposed in Section 2.1 of the report, which would lead to an increase in the ranges for equities (to 50 – 70% of the Fund from 40 – 60%) and to a lowering of the ranges for alternative investments (to 15 – 25% from 20 – 30 %) be approved.

10. **Emerging Markets Equities mandates transition**

Geik Drever presented a report on the transition of the Fund's Emerging Markets equity portfolio.

Resolved:

That the report be received and noted.

11 **Pensions Infrastructure Platform (PIP)**

Geik Drever presented an update report on the progress to date of the National Association of Pension Funds (NAPF) infrastructure initiative. She reminded the Sub Committee that it had agreed previously to support becoming a founder member of the PIP subject to certain conditions being met and reported on the progress to date in meeting those conditions and on future work still to be undertaken.

She responded to several questions posed on the proposals for the next stage.

Resolved:

That the first investment be noted, the next build stage of the PIP, with a further loan facility of £0.7m to £1.0m, subject to satisfactory due diligence, conditions to be agreed by the Sub Committee and a further report on the final agreed proposal.

12 **Responsible investing**

Mark Chaloner presented a report on a number of current issues related to corporate governance and responsible investing. The Chair, Cllr Bert Turner, referred to a number of letters he had received from the Coventry area in connection with the investments made by the Fund in companies associated with armaments.

Mark Chaloner referred to a particular letter received from an individual and explained that this gave rise to a number of issues including the role and responsibilities of the Fund and its Trustees. Cllr Damian Gannon suggested that the Local Authority Pensions Fund Forum should be approached to incorporate the armaments issue in its engagement programme. This view was supported by a number of members, many of whom referred to the responsibilities of the Trustees.

Resolved:

1. That the Fund continue with its current approach to responsible investment, with its focus on engagement with investee companies, and that investment exclusion should not be adopted;
2. That the Local Authority Pensions Fund Forum be approached to incorporate the armaments issue in its investment programme;
3. That a response setting out the Committee's stance be sent to the individuals who had written in detail with regard to the armaments issue.

13. **Finance Birmingham**

Mark Chaloner presented a report on the progress to date of the Fund's discussions with Finance Birmingham and on a further development since the production of the report. He explained the manner in which the latest development would be structured and responded to questions on the current position.

Resolved:

That the report be received and noted including approval to progressing the further development now reported.

14 **Economic and Market update – December 2013**

Graeme Johnston, Senior Investment Consultant, Hymans Robertson LLP presented an economic and market commentary covering the period from 30 September 2013.

Resolved:

That the report be received.

- **Kevin Dervey – Portfolio Manager**

The Chair, Cllr Bert Turner that this would be the last meeting of the Sub Committee attended by Kevin Dervey, Portfolio Manager, as he would be leaving the Council shortly to take up a position with the East Riding Pension Fund. On behalf of the Sub Committee he offered his thanks for his service and wished him success in his new position.

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Pensions Committee

25 June 2014

Report title Appointment of Sub – Committee and Forum and Dates Of Meetings 2014/15

Originating service Delivery

Accountable employee(s) Carl Craney Democratic Support Officer
Tel 01902 555046
Email carl.craney@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

That :-

- (a) Members be appointed to the Investment Advisory Sub-Committee and Joint Consultative Forum for the municipal year 2014/2015;
- (b) Dates and times of meetings as set out in the report be approved for the municipal year 2014/2015;
- (c) The Chairs and Vice-Chairs of the Investment Advisory Sub-Committee and Joint Consultative Forum be appointed for the municipal year 2014/2015.

1.0 **PURPOSE**

- 1.1 To appoint Members and Chairs and Vice-Chairs to the Investment Advisory Sub-Committee and Joint Consultative Forum for the municipal year 2014/2015.
- 1.2 To agree the dates and times of meetings of the Committee, Sub-Committee and Joint Consultative Panel for the municipal year 2014/2015.

2.0 **BACKGROUND**

2.1 Local Government and Housing Act 1989

Members are asked to note that under the provisions of the Local Government and Housing Act 1989, all Committees and Sub-Committees, with minor exceptions, have to be politically balanced. A further consequence of the Act is the removal of the voting rights of co-opted members.

Members are advised, however, that although the provisions of the Act apply to the Pensions Committee, they do not apply to the Investment Advisory Sub-Committee. The constitution of the Sub-Committee and the voting rights of the co-opted members are not affected by the provisions.

2.2 Appointment of Sub-Committee and Panel

(a) Investment Advisory Sub-Committee

The Pensions Committee have previously agreed that this Sub-Committee comprise the Chair, Vice-Chair and 2 Wolverhampton Members of the Pensions Committee and one Member from each of the other 6 constituent authorities. The Committee also agreed that the Joint Consultative Panel should nominate two Trade Union representatives to observe meetings of this Sub-Committee and four to observe the Pensions Committee.

The Committee are asked formally to confirm the appointment of the Chair and Vice Chair of the Sub-Committee, who have previously been the Chair and Vice-Chair of the main Committee, and to appoint the other Sub-Committee Members, including the 2 Wolverhampton representatives.

(b) Joint Consultative Forum

The Pensions Committee have also established a Pensions Joint Consultative Panel comprising the following Members:-

All Members of the Investment Advisory Sub-Committee
Two Wolverhampton Members of the Pensions Committee
Eleven representatives of the Trade Unions representing employees who participate in the benefits of the Local Government Pension Scheme.

The Committee are requested to appoint:-

- (i) two Members to the Panel, and
- (ii) the Chair and Vice-Chair, who have previously been the Chair and Vice-Chair of the main Committee.

2.3 Dates and Times of Meetings for 2014/2015

The Committee are asked to approve the following dates of meetings of the Committee, Sub-Committee and Panel for the remainder of the current municipal year. The dates are as follows:-

- (a) **Pensions Committee – 1.30 p.m. :-**
 - 24 September 2014
 - 10 December 2014
 - 18 March 2014
- (b) **Investment Advisory Sub-Committee – 10:00 a.m. :-**
 - 24 September 2014
 - 10 December 2014
 - 18 March 2014
- (c) **Joint Consultative Panel 1:30 p.m. :-**
 - 3 September 2014
 - 4 March 2014

3.0 FINANCIAL IMPLICATIONS

3.1 The report has no financial implications.

4.0 LEGAL IMPLICATIONS

4.1 There are no legal implications contained in this report other than referred to above.

5.0 EQUAL OPPORTUNITIES IMPLICATIONS

5.1 This report has no direct implications for the Council's Equal Opportunities Policy.

6.0 ENVIRONMENTAL IMPLICATIONS

6.1 This report has no direct environmental implications.

7.0 CORPORATE LANDLORD IMPLICATIONS

7.1 This report has no direct corporate landlord implications

8.0 **SCHEDULE OF BACKGROUND PAPERS**

8.1 Nil



Pensions Committee

25 June 2014

Report Title	Pension administration report from 1 January 2014 to 31 March 2014	
Originating service	Pension Services	
Accountable officer(s)	Simon Taylor Tel Email	Acting Head of Pensions Administration 01902 55(4276) Simon.taylor2@wolverhampton.gov.uk

**Report to be/has been
considered by**

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Note the report and approve the applications received for admission to the West Midlands Pension Fund in Section 5.
2. Approve the transfer of data to the Greater Manchester Pension Fund (GMPF) as part of the National Probation Service programme.

1.0 Purpose

- 1.1 To inform the Committee of the work undertaken by the Pensions Administration Services during the period 1 January 2014 – 31 March 2014.

2.0 Scheme Activity

2.1 Membership data

The number of scheme members in the Fund in all three categories stands at 270,317 with an overall increase since 31 December 2013 of 2,985. Of the active membership of 99,771- 46% are full-time and 54% part-time, which is a reflection of the flexible working arrangements amongst employers. The long-term trend over an 11 year period in membership is set out in (Appendix A) which illustrates a move towards a more mature profile whereby active memberships are falling and pensioners and deferred membership increasing.

2.2 Workflow statistics

The Operational Workload Reduction programme was completed on 31 March with work reduced to under 10,000 items from a starting point within UPM of 18,600 (and overall starting figure of over 25,000). Committee agreed to £40,000 for additional hours to reduce the amount of backlog processes. Project groups were established to target areas of work, including business improvement reviews and policy revisions to change working practices in some areas. This has resulted in a significant reduction in workload to enable the Fund to move forward with a manageable workload in the future. By reducing the backlog of outstanding work in some areas it also released capacity to strengthen resources on the Retirement and Deaths team and the Customer Service team.

The process analysis statistics show details of overall workflow within the Pensions Administration Service during the period 1 January 2014 – 31 March 2014 (Appendix B).

During the period covered by this report 31,418 administrative processes were commenced and 31,689 completed. 3,408 processes have been removed from the statistics covered in the last report, as these processes did not require direct action from the Fund and represented items where the Fund was awaiting information from employers. On 31 March 2014 there were 9,886 items of work outstanding. Of this 4,183 items were in pending as a result of information awaited from a third party e.g. scheme members, employers or transferring authorities. Within pensions administration, 5,703 processes are now either proceeding to the next stage of the process or through to final completion.

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

2.3 Pension Liberation Fraud

The new procedure to strengthen transfer processes in order to identify and deter pension liberation is working well and the escalation procedure has been used in several cases to further investigate pensions transfers to safeguard the pension benefits of our members and to raise awareness of this issue and the potential tax charge implications.

2.4 Employer membership data

The Fund continues to see an increase in employer membership due mainly to the establishment of academies and outsourced local government contracts, with 17 new organisations being admitted to the fund during the period 1 January 2014 – 31 March 2014. The current number of employers as at 31 March 2014 is 424. The level of ongoing work being processed at the end of the period is as follows:-

- 49 admission agreements
- 28 academies
- 22 employer terminations

2.5 Customer services

An analysis of telephone calls is shown which details the immediate response provided by the Fund when addressing fundamental pension queries for all our members and employers (Appendix D). The Fund experienced a high volume of calls and e-mails in April due to pension CPI increases and Scheme changes. This resulted in an increase in call waiting times. A review of the service has since been undertaken and resources strengthened in this area with plans to further strengthen resources during peak periods in the future. We continue to aim to provide a high quality response rate at first point of contact for telephone calls and pension fund enquiry emails.

2.6 Overall items scanned has remained fairly consistent with the previous years. The average % indexing error rate is below 0.1%. The Fund is working towards increasing exchange of data via electronic means and further progress has been made to move towards this objective. We continue to scan microfiches onto UPM to ensure that the microfiche information is available for work to be processed efficiently and accurately (Appendix E).

3. IDRP (Internal Dispute Resolution Procedure) casework

3.1 So far in the 2013/2014 financial year twenty cases have been received. Sixteen cases have been dismissed, one case has been upheld and three cases are in progress. The Sixteen cases dismissed related to the following pension issues:

- Eleven cases dismissed related to the exercise of employer discretion on the early payment of deferred benefits from age 55.
- One case related to the award of deferred benefits on ill health grounds rather than immediate ill health grounds.
- One case related to the level of benefits paid on redundancy grounds at stage one and Stage two of the procedure.
- One case related to the exercise of employer discretion on flexible retirement.
- One case in relation eligibility to join the scheme whilst employed by an agency.

The case upheld was relating to the award of deferred benefits instead of immediate benefits on Ill Health. Tier 3 has now been awarded.

4. Death grant

4.1 In this financial year six cases have been referred to legal for consideration. Four case decisions have been made and two cases are on-going.

5 Application for admission body status

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

5.2 Committee is requested to approve these admissions:-

Employer name	Guarantee Status (Agreement)	No of employees (Scheme members)	Status
Alliance in Partnership Ltd (Rounds Green Primary School)	Sandwell Metropolitan Borough Council	1(1)	Require approval
Bespoke Cleaning Ltd (Westwood Academy)	Westwood Academy	2(2)	Require approval
Churchill Contract Services (James Brindley School)	Birmingham City Council	1(1)	Require approval

6 Pensions in payment

6.1 The gross annual value of pensions in payment to March 2014 was £380.70m, of which £18.2m (£8.4m for pensions increase and £9.7m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.

6.2 Monthly payroll details were:

Month	Number	Value £
January 2014	72,777	29,834,469.62
February 2014	69,281	29,791,298.42
March 2014	83,844	30,668,864.58

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

7 Communications & marketing activity

7.1 Presentations

During the period Fund officers have continued to deliver presentations upon request from employers as detailed in Appendix F. The team will provide support on any subjects that are requested by an employer for their employees, however, the emphasis is on retaining membership and educating members on the possible changes due to be implemented in 2014.

7.2 Web Portal

Work is continuing to increase awareness of the web portal facility for members and employers. There are currently 11,400 members registered to use the web-portal facility. As at 31 March 2014 there are 204 employer accounts representing approximately 71 individual organisations. This has reduced from last reporting period as the Fund have been disabling accounts where employer contacts have left or not filled in re-registration forms.

8 Transfer of Staffordshire and West Midlands Probation Trust (SWMPT)

8.1 The Ministry of Justice (MoJ) is introducing a new system for the management and rehabilitation of offenders in England and Wales. The services that are currently delivered by 35 Probation Trusts will be delivered instead by 21 Community Rehabilitation Companies and by the newly created National Probation Service.

8.2 The date that employees were due to transfer from the existing Probation Trusts to the new bodies was 1 April 2014, however it was announced recently that this date has been put back by two months to 1 June 2014.

8.3 As part of this new system it was decided that Probation Trusts, which currently participate in many LGPS funds, would participate in only one LGPS fund. Following a tender process, which was outlined to Committee in a report dated 25 September 2013, the Greater Manchester Pension Fund (GMPF) was selected as preferred provider. The GMPF will assume responsibility for all of the pension assets and liabilities of the existing Probation Trusts, across all active, deferred and pensioner members.

8.4 In line with draft actuarial guidance contained in the Department for Communities and Local Government (DCLG) consultation “Transforming Rehabilitation Programme and the Local Government Pension Scheme”, the Fund will facilitate a bulk transfer of SWMPT to GMPF. The membership and asset/liability values of SWMPT as at 31 March 2013 is summarised below:

Membership category	Number	Average Age	Liabilities	Assets
Actives	1,514	46.4	£138,472,000	£225,819,000
Deferreds	870	47.5	£31,090,000	
Pensioners	1,284	69.3	£153,904,000	
Total	3,668	N/A	£323,466,000	£225,819,000

8.5 The bulk transfer payment will be based upon:

- a. the value of Probation assets allocated at the 2013 formal valuation, rolled up with investment returns to the payment date,
- plus
- b. the value of cash flows (mainly contributions less benefit payments) relating to the transferring members during each quarter between transfer date and payment date, rolled up with investment returns to the payment date.

8.6 As part of the transfer process a number of areas will require agreement between the Fund and GMPF as follows:

- The timing/staggering of transfer payments
- The form of assets
- The transaction costs
- The investment roll-up

8.7 The Fund has worked with GMPF and its system provider Heywood to provide the required data and images by 30 May 2014.

8.8 There is a possibility that the Fund may be asked to continue to pay benefits to Probation members after the transfer date and it has been confirmed that GMPF will notify the Fund in advance if this is going to occur.

9.0 Financial implications

- 9.1 The report contains financial information which should be noted, in particular the transfer out of SWMPT's assets and liabilities to GMPF.

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

10.0 Legal implications

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

11.0 Equalities implications

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

12.0 Environmental implications

- 12.1 The report contains no direct environmental implications.

13.0 Human resources implications

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

14.0 Corporate landlord implications

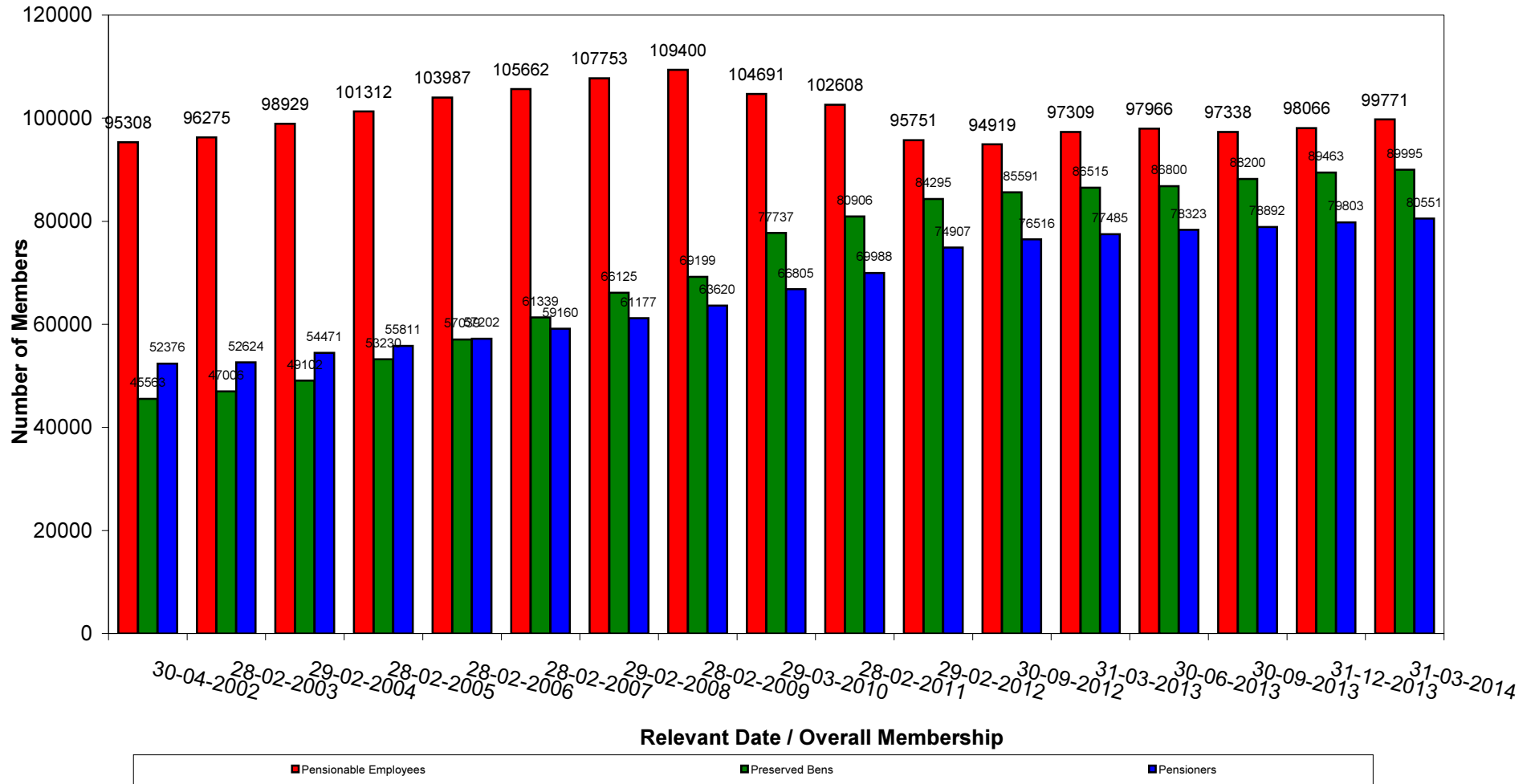
- 14.1 The report contains no direct corporate landlord implications.

15.0 Schedule of background papers

- 15.1 There are no preceding documents.

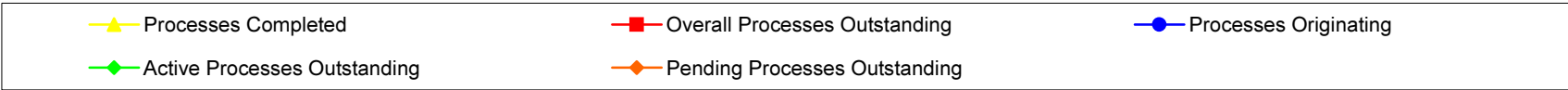
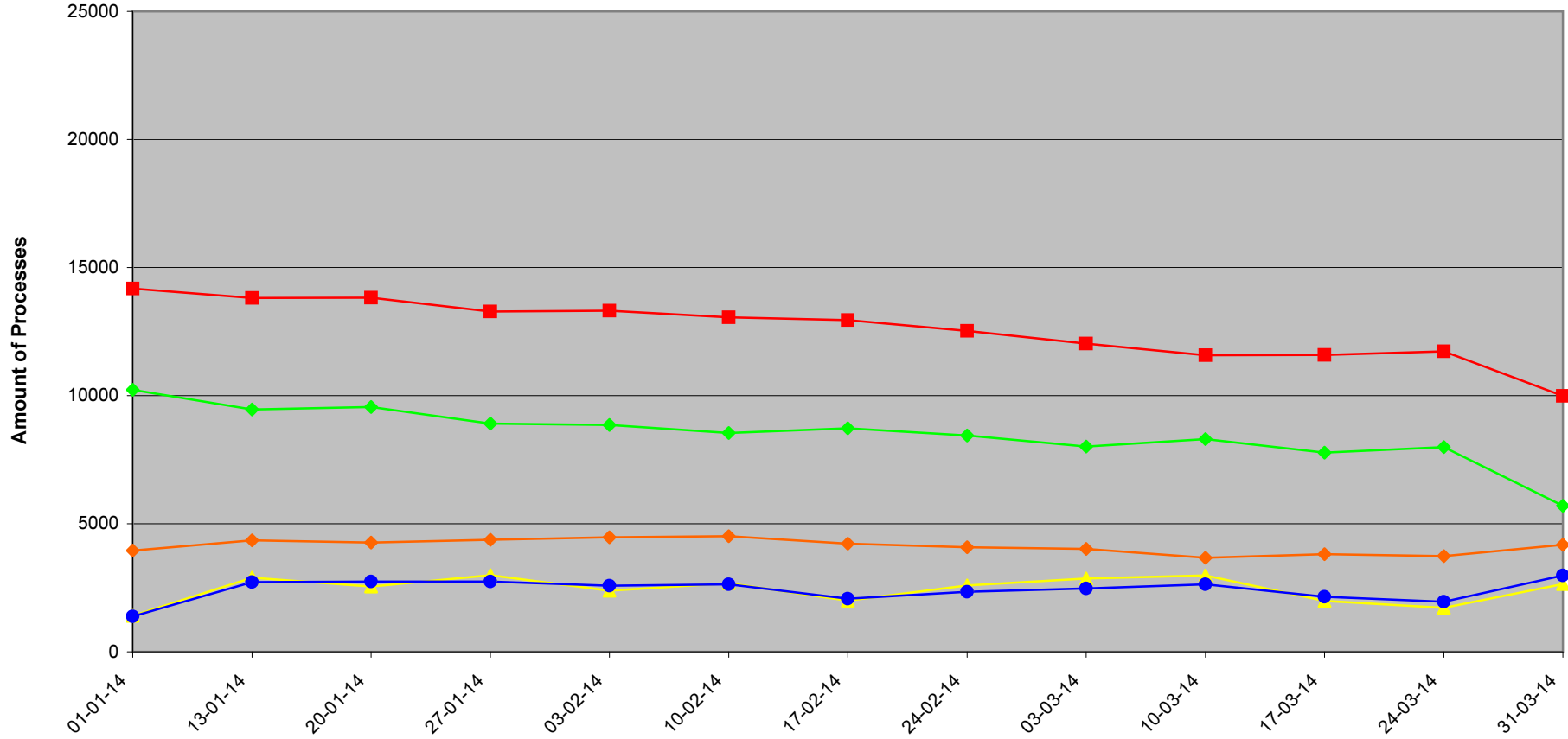
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Overall Membership



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Process Analysis



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2013/14

2009/10	2010/11	2011/12	2012/13	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	Mar	YTD 2013/14
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Active & Deferred members

Process type	2009/10	2010/11	2011/12	2012/13	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	Mar	YTD 2013/14
Joiners and Rejoiners	11,437	8,763	6,403	11,138	792	840	1,128	1,083	653	1,336	1,410	1,323	912	1,775	844	1,462	13,558
Changes in circumstances eg change in hours	27,341	18,759	15,303	12,385	824	1,149	765	545	1,060	993	1,055	1,050	821	919	1,161	931	11,273
Deferments	6,915	5,939	7,818	5,741	411	409	426	235	133	1,285	947	685	643	469	522	563	6,728
Active Retirements (Employer retirements)	2,652	3,317	3,950	2,475	237	184	163	179	142	170	199	151	173	246	225	210	2,279
Deferred Retirements	4,106	3,332	2,970	2,971	221	277	195	248	215	237	183	201	206	325	170	248	2,726
Deaths of members	253	295	262	287	18	30	19	28	27	28	30	21	15	18	22	29	285

Pensioner members

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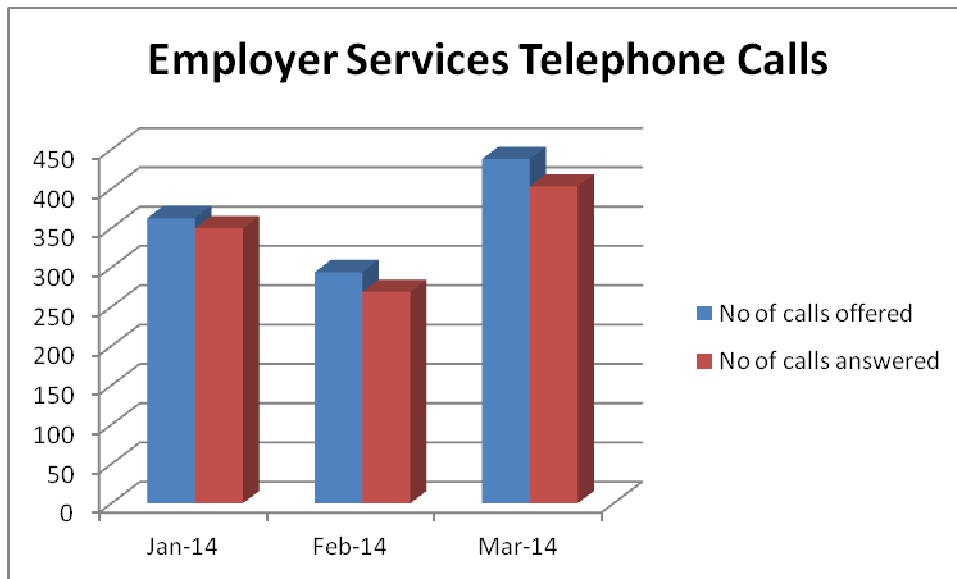
Process type	2009/10	2010/11	2011/12	2012/13	April	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	Mar	YTD 2013/14
Changes in circumstances:-																	
Data eg Passwords, NI Numbers	7,407	1,310	1,804	1,865	183	310	143	177	138	151	195	171	113	139	171	126	2,017
Changes of Address	2,222	2,420	2,681	2,131	193	162	135	162	143	139	164	133	124	158	92	127	1,732
Changes of Bank	1,125	2,927	2,531	2,783	377	198	198	253	281	287	455	333	117	435	284	202	3,420
Deaths of pensioners	2,014	2,085	2,145	2,101	208	168	181	262	341	165	194	155	175	197	183	317	2,546

Payroll	2009/10	2010/11	2011/12	2012/13	Monthly	Monthly	Quarterly	Monthly	Monthly	Quarterly	Monthly	Monthly	Quarterly	Monthly	Monthly	Annual	YTD 2013/14
Actual number paid	763,022	792,724	837,189	870,804	71,143	71,360	77,069	71,736	77,422	77,563	72,143	72,436	78,244	72,777	69,281	83,844	895,018

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Employer Service Telephone Statistics

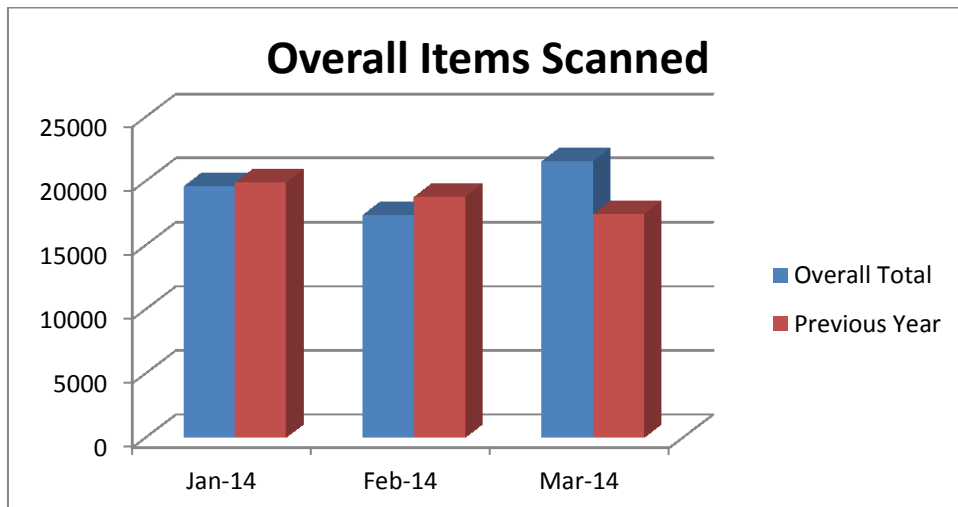
1 January 2014 to 31 March 2014



	Jan 2014	Feb 2014	March 2014
No of calls offered	363	294	438
No of calls answered	350	269	403
Answer Rate	96.40%	91.50%	92.00%

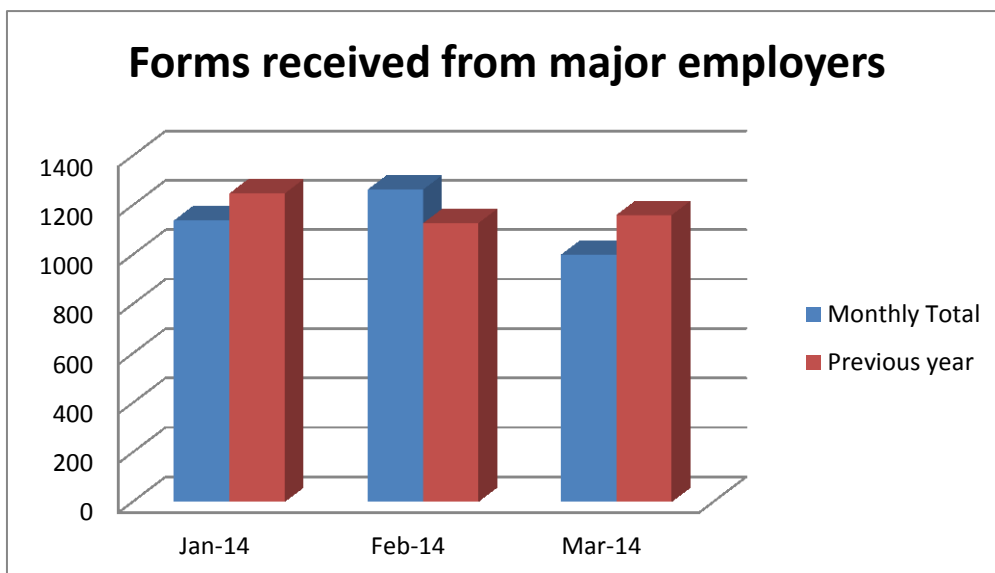
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Data Quality Statistics 1 January 2014 – 31 March 2014

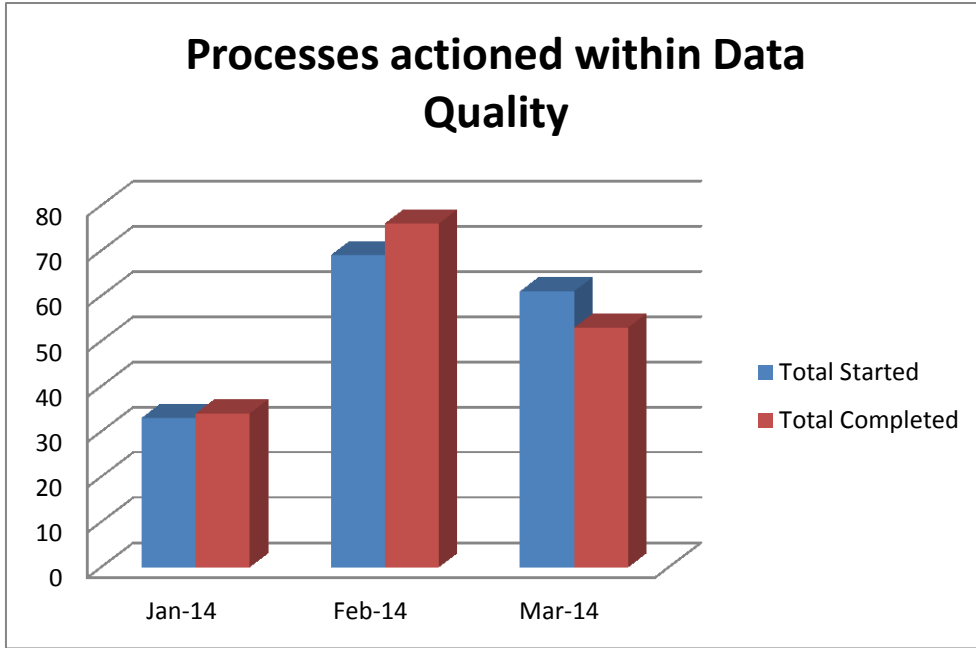


	Overall Total	Previous Year
Jan 2014	19609	19888
Feb 2014	17380	18777
March 2014	21565	17433

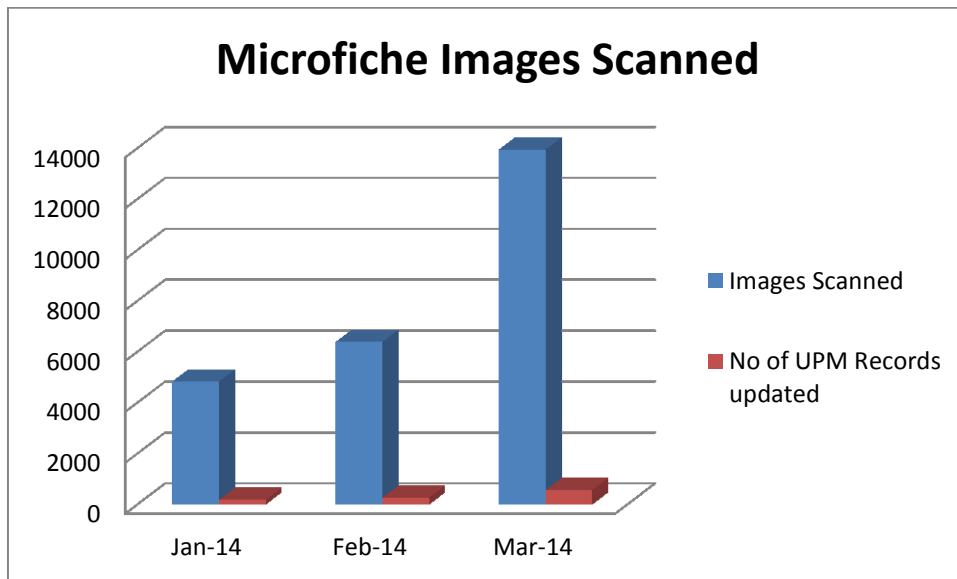
	Overall Scanned	Indexing errors	% error rate
Jan 2014	19609	23	0.08
Feb 2014	17380	18	0.06
March 2014	21565	20	0.06



	Monthly Total	Previous year
Jan 2014	1139	1248
Feb 2014	1264	1128
March 2014	1001	1161



	Jan 2014	Feb 2014	Mar 2014
Total Started	33	69	61
Total Completed	34	76	53



	Number of Images Scanned	No of UPM Records updated
Jan 2014	4832	186
Feb 2014	6389	271
March 2014	13949	567

Appendix F

Presentations made to employers during the period 1 January to 31 March 2014

Date	Venue	Activity
6 January 2014	Birmingham City Council	LGPS & AVC presentation
7 January 2014	Sandwell M.B.C.	At Risk/Redundancy Presentation
8 January 2014	Walsall Housing Group	LGPS & AVC presentation
14 January 2014	Walsall Housing Group	LGPS & AVC presentation
15 January 2014	Walsall Housing Group	LGPS & AVC presentation
20 January 2014	Coventry City Council	Drop in Pension surgery
21 January 2014	Baverstock Academy	1:2:1 sessions
21 January 2014	Sandwell M.B.C.	1:2:1 sessions
22 January 2014	Birmingham City Council	Drop in Pension surgery
27 January 2014	Northern Housing Consortium	LGPS & You Presentation / 1:2:1 sessions
29 January 2014	Sandwell M.B.C.	At Risk/Redundancy Presentation
30 January 2014	Coventry City Council	At Risk/Redundancy Presentation
5 February 2014	Redfern Road Depot (B.C.C)	1:2:1 sessions
7 February 2014	Sandwell M.B.C.	1:2:1 sessions
7 February 2014	South and City College Birmingham	LGPS & You Presentation
10 February 2014	Deanery School	LGPS & You Presentation
11 February 2014	Grace Academy (Coventry)	Drop in Pension surgery
12 February 2014	Grace Academy (Solihull)	Drop in Pension surgery
12 February 2014	South & City College Birmingham	LGPS & You 2014 Presentation
13 February 2014	Birmingham City University	Pre-Retirement Presentation
13 February 2014	Grace Academy (Wednesbury)	Drop in Pension surgery
14 February 2014	South & City College	LGPS & You 2014 Presentation
24 February 2014	Coventry University	LGPS & You 2014 Presentations
3 March 2014	Solihull Community Housing	LGPS & You 2014 Presentation & Pension surgery
3 March 2014	Birmingham City Council	Drop in Pension surgery
3 March 2014	Stockland Green School	LGPS & You 2014 Presentation
4 March 2014	Walsall Housing Group	LGPS & AVC presentation
5 March 2014	Walsall Housing Group	LGPS & AVC presentation
6 March 2014	Arthur Terry Academy	LGPS & You 2014 Presentation
6 March 2014	Sandwell IPS	LGPS & You 2014 Presentation
6 March 2014	Kingshurst Academy	LGPS & You 2014 Presentation
7 March 2014	Coventry City Council	Pre-Retirement Presentation
7 March 2014	West Midlands Fire Authority	LGPS & You 2014 Presentations
10 March 2014	Solihull Community Housing	Drop in Pension surgery
10 March 2014	Dudley M.B.C.	At Risk/Redundancy Presentation
11 March 2014	Coventry City Council	LGPS & AVC presentation
12 March 2014	Coventry City Council	LGPS & You 2014 Presentations
12 March 2014	West Midlands Fire Authority	LGPS & You 2014 Presentations

13 March 2014	Solihull M.B.C	LGPS & AVC presentation
Date	Venue	Activity
14 March 2014	Dudley M.B.C.	LGPS & AVC presentation)
14 March 2014	Coventry University	LGPS & You 2014 Presentations
17 March 2014	Birmingham City University	LGPS & You 2014 Presentations
17 March 2014	Wolverhampton City Council	Drop in Pension surgery
18 March 2014	Birmingham City University	LGPS & You 2014 Presentations
18 March 2014	Sandwell M.B.C.	Drop in Pension surgery
19 March 2014	Wolverhampton City Council	LGPS & AVC presentation
19 March 2014	Wolverhampton University	Pre-Retirement Presentation
20 March 2014	West Midlands Fire Authority	LGPS & You 2014 Presentations
21 March 2014	Solihull Community Housing	LGPS & You 2014 Presentation & Pension surgery
24 March 2014	Coventry University	LGPS & You 2014 Presentations
24 March 2014	Birmingham City University	LGPS & You 2014 Presentations
25 March 2014	Wolverhampton City Council	Drop in Pension surgery
26 March 2014	Charles Cuddy Walker Academy	LGPS & You 2014 Presentation
28 March 2014	Holyhead School	LGPS & You 2014 Presentation
31 March 2014	Wolverhampton City Council	Introduction to the LGPS Presentation
31 March 2014	Ark Kings Academy	LGPS & You 2014 Presentation



Pensions Committee

25 June 2014

Report Title	Compliance Monitoring	
Classification	Public	
Originating service	Pension Services	
Accountable officer(s)	Geik Drever Tel Email	Director of Pensions 01902 55(2020) geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Note the contents of the report and that no compliance issues have arisen in this period.

1.0 Purpose

- 1.1 As a matter of best practice, it has been agreed that a report on the findings of the quarterly Compliance Monitoring Programme together with any other compliance issues will be submitted to Members on a regular basis.

2.0 Background

- 2.1 There is in operation a Compliance Monitoring Programme for the Fund, which aims to ensure the investment management practices of the Fund, its external managers and those with whom it transacts business, follow best practice and operate to acceptable standards. The Compliance Monitoring Programme also aims to provide assurance that member benefits have been calculated and communicated correctly and that where service standards are in place, they are being achieved.
- 2.2 Members of staff having direct and indirect operational involvement with Investments and Member Services undertake the comprehensive Compliance Monitoring Programme.

3.0 Current monitoring programme

- 3.1 The Compliance Manual has been distributed to all Officers having direct and indirect operational involvement with the investments of the Fund. Confidentiality statements are completed on an annual basis and declarations of personal dealing are required half yearly.
- 3.2 A sample of approximately 5% of total purchase and sale transactions during the period have been reviewed for timely and best execution by way of comparison of internal and counterparty records and market information. A selection of expenses charged to the Fund during the period has also been reviewed for accuracy and appropriateness and in the case of external managers, adherence to individual management agreements. Also a selection of Fund stationery and documents were reviewed to ensure accurate data and contact details were present.
- 3.3 A sample of up to 5% of member transactions, including payment of pension benefits and associated transactions to the Fund's accounts, have been reviewed during the period for timely and accurate calculation and payment, along with appropriateness.
- 3.4 The Compliance Monitoring Programme for the period 1st January to 31st March 2014 is complete and no issues have arisen. All trades, invoices, payments and receipts sampled met with requirements and were recorded in line with regulatory standards.
- 3.5 One compliance monitoring visit was undertaken during the period to an external fund manager at which the manager's compliance and risk management procedures were reviewed. All findings were escalated to the Investment Team to investigate further and take any necessary action.

4.0 Future reviews

4.1 The current compliance monitoring programme is being reviewed and a risk based approach adopted, linking the programme to the Fund's objectives and the risk register. The risk register was approved by this Pensions Committee in March 2014 and the new monitoring programme is being developed and is expected to be implemented from the period 1st April to 30th June 2014.

5.0 Freedom of Information / Data Protection Requests

5.1 The Compliance and Risk Team are responsible for co-ordinating the Freedom of Information and Data Protection requests on behalf of the Pension Fund in conjunction with the Office of the Chief Executive.

5.2 During the period the Fund received seven requests for information under the Freedom of Information Act 2000 and one request for personal information under the provision of the Data Protection Act 1998. The breakdown of the areas covered by the Freedom of Information requests is as follows; Investments five (5), Operations one (1) and Corporate one (1). In all instances the requests were managed in accordance with the requirements of the respective Acts.

5.3 From 1st March 2014 the Fund started to record the time spent by employees in responding to requests under the Act. The time spent by employees responding to the three requests received under the Acts (two FOI and 1 DPA) in March 2014 was 12 hours.

6.0 Matters arising

6.1 On-going monitoring of national, international and industry press coverage is conducted as part of the Compliance Monitoring Programme to identify any developments which may have a financial impact on the Fund.

6.2 During the period no new articles or commentary was issued which may have any direct or indirect impact on the Fund.

7.0 Financial implications

7.1 This report contains no direct financial implications.

8.0 Legal implications

8.1 This report contains no direct legal implications.

9.0 Equalities implications

9.1 This report contains no direct equal opportunities implications.

10.0 Environmental implications

10.0 This report contains no direct environmental implications.

11.0 Human resources implications

11.1 The report contains no direct human resource implications.

12.0 Corporate Landlord

12.1 There are no corporate landlord implications.

13.0 Schedule of background papers

13.1 There were no preceding background papers.



Pensions Committee

25 June 2014

Report Title Draft Final Accounts & Outturn 2013/14

Originating service Pension Services

Accountable officer(s) Geik Drever Director of Pensions
Tel 01902 55(2020)
Email Geik.drever@wolverhampton.gov.uk

Report to be/has been considered by

Recommendations for action or decision:

The Committee is recommended to:

1. Approve the contents of the Statement of Accounts (to be tabled) and for the accounts to be submitted to the external auditors for audit.

Recommendations for noting:

The Committee is recommended to:

1. Note the financial outturn for 2013/14 alongside the Fund's key performance indicators and achievements in the Service Plan

1.0 Purpose

- 1.1 To present to Members the draft 2013/14 Statement of Accounts operating outturn and service planning for West Midlands Pension Fund and provide an update to the Fund's financial and business plan monitoring.

2.0 Background

- 2.1 The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 which is based upon International Financial Reporting standards (IFRS) as amended for the UK public sector. The accounts are subject to disclosure requirements as outlined in the CIPFA Example Accounts and Disclosure Checklist issued in 2012/2013.
- 3.2 The accounts will be approved by the Authority's Section 151 Officer on 30 June 2014, submitted to Audit Committee on the 14 July 2014 and to the Fund's external auditors, PwC, for audit in July 2014.
- 3.3 Findings from the annual audit will be presented to the Committee along with the Annual Report at a later date.

3.0 Draft Statement of Accounts

- 3.1 The net assets of the Fund increased from £9.9 billion to £10.1 billion in 2013/2014.
- 3.2 The impact of the IAS 26 disclosure on the Fund's assets, liabilities and funding position as at 31 March 14 is not yet available from the Actuary and will be disclosed separately to the Committee prior to the meeting on 25 June.
- 3.3 Active membership of the Fund increased by 2,441 during 2013/2014, with pensioner and deferred membership increasing by 3,066 and 3,499 respectively. These movements are reflected in the income and expenditure of the Fund's accounts.
- 3.4 As the draft accounts are not available at the date of writing they will be tabled at Committee.

4.0 Operating outturn 2013/2014

4.1 The summary operating budget and outturn for Pension Services (at the time of writing) for 2013/14 are shown below:

	2013/14 Budget	2013/14 Projection	2013/14 Over/(Under)
Employees	4,955,005	4,338,754	(616,251)
Premises-related	319,770	266,908	(52,862)
Transport-related	110,300	55,152	(55,148)
Supplies and services			
- Communications and IT	941,550	783,910	(157,640)
- Investment management & advice	10,327,066	8,407,174	(1,919,892)
- Other (including actuarial fees)	1,617,780	2,065,121	447,341
Support services	681,500	570,321	(111,179)
Service development	490,000	25,786	(464,215)
Total expenditure	<u>19,442,971</u>	<u>16,513,125</u>	<u>(2,929,846)</u>
Miscellaneous income	(276,460)	(530,467)	(254,007)
Net expenditure	<u>19,166,511</u>	<u>15,982,658</u>	<u>(3,183,853)</u>

4.2 The budgeted unit costs for 2013/2014 for administration and investments were £24.64 and £49.33 respectively, based on a total membership figure of 259,116. The projected final outturn unit costs are £19.21 for administration and £39.92 for investments based on the membership of the Fund at 31 March 2014 of 270,330. These figures reflect a reduction in costs and an increase in membership.

4.3 A projected underspend of £3.18 million is expected. The key variance relates to investment management and advice of £1.9 million where performance fees have not been incurred. This figure varies with market movements and the performance of managers as a number of arrangements have an element of performance related fees. Recently contracts have been renegotiated to remove the performance element where feasible to reduce the volatility of this cost and new contracts have also been put in place.

4.4 Other significant variances relate to an underspend of £620,000 on employees where a number of vacancies were being held and an underspend within service development of £460,000 where expenditure on implementing LGPS 2014 has not fully transpired within this financial year due to delays in receiving the regulations from DCLG.

4.4 Other variances include property where there was a £22,000 underspend on repairs and maintenance and a £29,000 underspend on service charges. Transport variances are attributed to a £22,000 reduction in public transport costs and no expenditure for foreign travel was incurred where a budget of £25,000 had been allocated. (The latter budget has been removed in 14/15).

- 4.5 Within supplies and services, communications and computing cost variances arose from a £140,000 underspend on IT following the delayed implementation of software and hardware upgrades due to the major development of the Agresso system being given priority.
- 4.6 The overspend of £450,000 within 'other' expenditure within supplies and services arose due to an overspend of £170,000 for actuarial fees mainly arising from the conversion of schools to academies, additional legal fees of £130,000 arising from investment due diligence related advice as well as other legal fees on pensions administration and additional stock expenses of £120,000 from holding a larger quantity of equities with our custodian. There was also a £70,000 overspend on licences and an underspend of £50,000 on consultants' fees as expenditure on professional advice was not required to the level anticipated and greater support was available from internal resources.
- 4.7 There was also a reduction in support service costs due to the charging mechanism amounting to over £110,000.
- 4.8 The overspend in 4.6 was recovered through additional recharge income from academies and accrued interest on temporary loans.

5.0 Medium term plan

- 5.1 The nine key priorities in the Service Plan are detailed in Appendix 1, which represents a summarised update of activities.
- 5.2 Pensions Committee received a detailed report on the individual priorities in the 'Assurance Framework and Annual Governance Statement' in March 2014. The future service planning reports will reflect the updated priorities.
- 5.3 Activities against the plan continue in line with objectives; the key points to note being the 2014 new scheme, implementation of the trustee training policy, the 2013 actuarial valuation results and the comprehensive review of the Fund's investment strategy.
- 5.4 The Fund's investment performance is reported separately in this Committee's agenda. For the year to 31 March 2014, the Fund returned 3.51% versus its benchmark of 3.05%, outperforming by 0.46% for the year.
- 5.5 The Fund's key achievements during 2013/14 include the following:
- Completed Actuarial Valuation 2013 and setting contribution rates for the next three years
 - Awards – nominations for several industry awards and achieved Investors in People (Silver) and retained accreditation for Customer Service Excellence
 - Successfully launched self-service platform for employers
 - Completed several consultation responses to the changing LGPS landscape and implemented the LGPS 2014 scheme
 - Investment structure and portfolios were reviewed and changes implemented
 - Improvements were made to Trustee Training which resulted in increased training hours

- On the operations and staff side, backlogs were reduced to manageable levels and an updated staff appraisal framework put in place
- Cost efficiencies continue to be made as reflected in 4.2

6.0 Financial implications

6.1 The projected financial outturn is as detailed in paragraph 4 above.

7.0 Legal implications

7.1 This report contains no direct legal implications.

8.0 Equalities implications

8.1 This report has no direct equal opportunities implications.

9.0 Environmental implications

9.1 This report has no direct environmental implications.

10.0 Human resources implications

10.1 This report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 This report contains no direct corporate landlord implications.

12.0 Schedule of background papers

12.1 There were no preceding background papers except those listed in the report.

Appendix 1

PRIORITY AND OPERATIONAL ACTIVITY	PROGRESS UPDATE
1. Maintain quality procedures and practices:	
<ul style="list-style-type: none"> - Maintain quality accreditations - Invest in leading technologies - Respond to best practice shown by others - Respond to legislative changes 	<ul style="list-style-type: none"> - The Fund has undertaken re-evaluation for the Customer Service Excellence accreditation and successfully retained the award. The Fund was awarded a Silver level Investors in People accreditation. - Systems and technologies are monitored and maintained by a professional and appropriately resourced staff. - The Fund actively participates in networking and information sharing with peers and industry practitioners, both learning from others and sharing its own practices. - Technical specialists within the Fund monitor and interpret legislative changes and communicate requirements to the wider organisation. A specialist team from existing resources is tasked with implementing the 2014 Scheme and external advice will be utilised, where appropriate, to support the Fund.
2. Demonstrate 'value for money' in the Fund's operations:	
<ul style="list-style-type: none"> - Demonstrate quality of service delivery - Benchmark performance costs and service quality 	<ul style="list-style-type: none"> - The Fund has developed and implemented a number of key performance indicators (KPIs) to ensure targets for service delivery, both internally and externally, are reviewed, measured and reported on a timely basis. Performance targets are a combination of internally determined and external benchmarks and are reviewed quarterly. A revised KPI framework in respect of Administration was presented to Pensions Committee in January 2014.
3. Develop, implement and maintain customer engagement strategies:	
<ul style="list-style-type: none"> - Develop technical support for maintaining communication strategy for employing bodies - Develop communications with stakeholders and monitoring of 	<ul style="list-style-type: none"> - The Employer Mid-Year Review took place in July 2013, where Fund officers updated employers on the 2013 actuarial valuation process and developments in respect of the 2014 scheme changes. The meeting included presentations and round table discussions and drew positive feedback from attendees. The 2014 Mid-Year Review is scheduled 9 July

PRIORITY AND OPERATIONAL ACTIVITY	PROGRESS UPDATE
<p>pension provisions to individuals</p> <ul style="list-style-type: none"> - Develop, consult upon and implement the Pensions Administration Strategy - Hold Employer AGM - Develop and implement customer engagement strategies 	<p>2014.</p> <ul style="list-style-type: none"> - The Fund held its second Employer AGM in December 2013 which was attended by representatives from 45 employers. Presentations were made by Fund staff and the Fund's Actuary, Mercer and the event focussed largely on the 2013 Actuarial Valuation. - The Fund maintains a comprehensive website, providing documentation and information for members, employers and other interested parties. The website provides important information for stakeholders, such as proposed legislative or scheme changes and its layout and content are under review by the Fund's website working group with the new look website due to launch shortly. - The web portal is used by all 7 Councils, along with a further 251 employer accounts across 74 employers, for retirement estimates and other employer data. Scheme members can access their individual records to update data and to date some 10,152 (approximately 3.8% of membership) have requested registration to the service with 6,023 having activated their accounts. - The bi-annual civic Roadshows are currently being held at the seven district sites across the West Midlands. - Seminars and 1-2-1 clinics continue to be held; tailored to employer requirements. - Three, week-long retirement planning events have been held throughout the year at venues across the West Midlands in partnership with Prudential. Presentations focused on updating members on the proposed 2014 Scheme changes. - Customer surveys are analysed and resulting improvements are implemented as part of the changes to processing. - Engagement with employers in respect of the Pensions Administration Strategy and performance reporting is on-going.

PRIORITY AND OPERATIONAL ACTIVITY	PROGRESS UPDATE
4. Management of risk strategies:	
<ul style="list-style-type: none"> - Regular risk management reviews - Review of major changes and new activities - Develop and maintain risk management approach in order to give annual assurance statement - Develop and implement Business Continuity Planning 	<ul style="list-style-type: none"> - An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to annual review and quarterly monitoring. It is available to internal and external audit. Trustee and Forum members training in respect of risk management & compliance was undertaken in October 2013. - The Fund's updated risk register was approved by Pensions Committee in March 2014 - Quarterly compliance testing has produced no reportable issues. The investments and operations compliance functions have been integrated to provide a Fund-wide function and a risk based programme is under development. - The 2014 annual assurance statement was presented to the March 2014 Pensions Committee. - The business continuity plan was reviewed and updated in April 2013, with staff having been trained on its content and the appropriate procedures.
5. Deliver the agreed investment strategy:	
<ul style="list-style-type: none"> - Review, implement and monitor investment strategy - Communicate and consult on progress - Develop appropriate changes for approval - Monitor and highlight opportunities with due regard to risk - Explore, evaluate and consult on options to Sub-Committee and interested parties 	<ul style="list-style-type: none"> - Hymans Robertson are the Fund's strategic investment advisor and a full review of the investment strategy and asset allocation is underway. - The Fund's SIP will be updated and presented to the June 2014 Pensions Committee. - Hymans' next SIAB review to be presented to Pensions Committee in September 2014 - Property OJEU tender under way. We plan to appoint new manager in July 2014. - Work on changes in fixed interest, alternatives and quoted equities portfolios under way or to commence shortly. - Selective new commitments made to private equity funds. - The Fund's response to potential investment opportunities will be further developed in conjunction with advice from Hymans, following the Asset Liability Management (ALM) review carried out after the 2013 valuation.

PRIORITY AND OPERATIONAL ACTIVITY	PROGRESS UPDATE
6. Active management of Environmental, Social and Corporate Governance (ESG) issues:	
<ul style="list-style-type: none"> - Voting and engagement through partnerships - Reviewing investment processes to encourage ESG 	<ul style="list-style-type: none"> - The Fund votes at company meetings for the majority of its global equities holdings, and employs PIRC to advise on corporate governance issues. As an active member of the Local Authority Pension Fund Forum (LAPFF), the Fund also works in conjunction with other public sector pension funds to engage with investee companies on a variety of issues, with the aim of encouraging best practice and enhancing investment returns. - The Fund is a UNPRI signatory and a member of the Institutional Investors Group on Climate Change (IIGCC). - The Fund joined the Carbon Disclosure Project (CDP) in January 2014. - In January 2104, the Fund was voted 9th out of 24 UK pension funds in a survey on responsible investment performance by ShareAction. - Regular reports on responsible investment and voting/corporate engagement activity are submitted to Committee.
7. Triennial Actuarial Valuation:	
<ul style="list-style-type: none"> - Engage with employing bodies and discuss issues - Collect data for valuation - On-going review of investment strategy in order to maintain SIP and FSS - Regular monitoring of funding levels 	<ul style="list-style-type: none"> - The Fund maintains a comprehensive website, providing documentation and information for employers on a variety of matters, including the actuarial valuation. - The Fund sent confirmation of final results to all participating employers confirmation by the end of February 2014 - The formal 31 March 2013 valuation report was signed off by the Fund actuary on 31 March 2014, and has been placed on the Fund's website. - The FSS and associated Termination Policy have been reviewed and updated to reflect the outcomes of the 2013 valuation. - A comprehensive review of the investment strategy and asset allocation is currently being undertaken. The SIP will be further updated to reflect any changes resulting from this review, based upon the 2013 actuarial valuation. - The Fund will undertake regular monitoring of funding levels, primarily on an annual basis, as part of the employer covenant review. - The Fund's investment strategy will be considered in the context of the next steps following the valuation with a view to segregation enabling

PRIORITY AND OPERATIONAL ACTIVITY	PROGRESS UPDATE
	employers to satisfy differing risk appetites.
8. Trustee and Consultative Forum Training:	
<ul style="list-style-type: none"> - Maintain and expand the opportunities to build Trustee knowledge and understanding - Monitoring of approved training policy - Identification of training needs and development of training plan 	<ul style="list-style-type: none"> - Structured induction training provided to Trustees and Forum Members by the Director of Pensions is available to all Members as required. During 2013/14, all new and returning members participated in the induction training. A similar induction programme will be in place for any new or returning members this year. - Further structured training has taken place by way of presentations to IASC on a variety of investment linked topics. Fund officers have presented information on Scheme Changes and two Risk Workshops were held in October and November. - Individual training sessions have been facilitated covering “Understanding the Statement of Accounts” and “Asset Classes”. Further 1:1 sessions will be arranged on request. - Regular Trustee Training reports are submitted to Pensions Committee. - The revised CIPFA Knowledge and Skills Framework has been distributed to Members along with details of electronic resources and online toolkits. A further training needs analysis will take place in early summer.
9. Developing People:	
<ul style="list-style-type: none"> - Ensure a skilled and professional workforce - Identify and address training and development needs - Measure and improve competency levels 	<ul style="list-style-type: none"> - Structured induction training is provided in-house for all new employees. - A full training needs analysis and workforce survey is currently underway. The outcomes and training needs identified will be linked into individual appraisals and will be delivered in line with the needs of the business. - A revised staff appraisal system to realign with Council’s process is being implemented and staff are currently being trained.

This report is an EXEMPT DECISION ITEM

Appendix 2

KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS MAY 2014

No	Description	Target	Lead Officer	Actual (Score and BAG)	Reporting Period	Reported to:	Previous Score	Date Last Reported	Improvement/Deterioration
1	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 70% (Taken from IAS26 Report)	>70%	GD	75.00%	31/03/2014	SMT	74.00%	31/04/2013	1.00%
2	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to be within 2% of the benchmark (3 Yr Rolling)	VARIANCE +/- 2%	GD/MC	BENCHMARK 5.54%	Mar-14	SMT	BENCHMARK 5.77%	Feb-14	0.01%
				ACTUAL 5.97%			ACTUAL 6.19%		
				RELATIVE 0.43%			RELATIVE 0.42%		
3	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	95%	ST	87%	Sep-13	SMT	83%	Sep-12	-2.00%
	DBS issued to 85% of eligible deferred members by 30th October	85%		88%	Jul-13	SMT	83%	Jul-12	5.00%
4	CONTRIBUTIONS RECEIVED Main Fund 98% (total value) of contributions to be received by the due date.	98%	RD	99.07%	Mar-14	SMT	99.18%	Feb-14	-0.11%
	Travel Fund 98% (total value) of contributions to be received by the due date.	98%		100.00%	Jan-14	SMT	100.00%	Dec-13	0.00%
5	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the Main Funds external auditors	Clean Report	RD	Yes	Year to 31/03/2013	SMT	Yes	Year to 31/03/2012	0.00
	Annual audit returns no significant findings	0 significant findings		0			0		
	Receive an unqualified audit opinion from the Travel Funds external auditors	Clean Report		Yes	Year to 31/03/2013	SMT	Yes	Year to 31/03/2012	0.00
	Annual audit returns no significant findings	0 significant findings		0			0		
6	EXTERNAL ACCREDITATION The Fund to be shortlisted for all of the awards in which it is entered.	100%	GD	Applications 12	May-13	SMT	Applications 12	Dec-13	-20.83%
				No. Pending 0			No. Pending 4		
				No. Shortlisted 5			No. Shortlisted 5		
				Percentage Shortlisted 42%			Percentage Shortlisted 63%		
7	COST PER MEMBER Administration cost per member to be reduced from budgeted figure of £24	<£24	ALL	£19.21	Mar-14	SMT	£20.48	Mar-13	£1.27

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1.0 Purpose

1.1 This report is submitted for Members' information.

2.0 Background

2.1 For a number of years, the West Midlands Pension Fund has adopted an approach of wanting to position itself by following good corporate governance practices. One way this is reflected is in its approach to active proxy voting. The Fund aims to vote at the majority of company meetings both in the UK and overseas where it has a direct interest. The Fund's voting policy is summarized in the annual report and accounts and published on the web-site.

3.0 Voting Activity

3.1 During the period the Fund voted at a total of 371 company meetings – 49 UK, 35 European, 47 US, 38 Japanese, 86 Global and 116 Pacific. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld* 1,594 resolutions out of a total of 3,582, representing approximately 45% of all resolutions. During this period there were 46 meetings where the Fund supported all the resolutions put forward by companies.

3.2 The Fund has developed a bespoke template for voting at UK meetings. However, the Fund currently follows the voting advice of the Pensions and Investments Research Consultants Ltd (PIRC) for European US, Japanese and Pacific region company meetings. **(It should be noted that due to a combination of US state law and individual company bye-laws, votes pertaining to individual directors cannot be cast as "oppose" but have to be cast as "withheld").*

4.0 UK Voting Analysis

4.1 The major issues that were of particular concern during the period are typically illustrated in the examples in the table below:

Company	Meeting	Resolutions Causing Shareholder Concern
Vodafone PLC	AGM	Approve the Scheme Of Arrangement
Easyjet PLC	AGM	Approve the Remuneration Policy
Easyjet PLC	AGM	Re-Election of Directors
Crest Nicholson PLC	AGM	Approve the Remuneration Report
BWIN.Party Digital Entertainment PLC	AGM	Approve new Long Term Incentive Plan

Although the Fund may often oppose a resolution, it will support a resolution if it believes the company has followed best practice, even if there is significant opposition from other shareholders. Background details on some of the resolutions that attracted a high level of opposition are detailed below:

4.2 **Vodafone (AGM)**

On 2 September 2013, Vodafone agreed to dispose of its 45% interest in Verizon Wireless to US telecoms giant Verizon Communications. At the same time, it was agreed that Vodafone would purchase Verizon's 23% in Vodafone Italy, thereby securing full ownership of the Italian subsidiary.

Vodafone agreed to dispose of the US group to Verizon for a total headline consideration of approximately \$130 billion made up of a combination of cash and shares. They also agreed to return more than 70% of the net proceeds to shareholders. Vodafone sought shareholder approval for the transactions at both an EGM and a Court Meeting. Given the prospects of a significant return to shareholders and the resolution of long-standing issues between Vodafone and its US partner, the transaction was deemed in the best interests of shareholders.

The Fund voted in favour of the resolution.

4.3 **Easyjet (AGM)**

The remuneration policy was a particular focus of attention for shareholders at the AGM of budget airline Easyjet.

Whilst there were a number of positive aspects to the policy which were welcomed by the Fund, there were equally several areas which were of particular concern.

Total remuneration included the provision of a Long Term Incentive Plan (LTIP). Performance conditions and maximum potential awards payable under the plan were made available. However, the LTIPs had a vesting period of three years, which was not considered sufficiently long-term. Additionally, LTIPs are not considered an effective means of incentivising performance. These schemes are not considered to be properly long term and are subject to manipulation due to their discretionary nature. All the incentive schemes are subject to clawback provisions. However, there is no evidence of recovery provisions under which money already paid must be handed back.

The remuneration policy also failed to disclose the ratio of CEO pay to employee pay in line with best practice. The ratio could be estimated at 30:1 which is considered to be excessive.

The Fund opposed the resolution.

The resolutions to re-elect a number of Non-Executive directors including David Bennett and Professor Rigas Doganis attracted a high level of opposition. It is believed that much of the opposition came from Easyjet founder Sir Stelios Haji-Ioannou who has been unhappy at certain decisions that have been taken by the board. However, as the directors were considered to be independent, the Fund was able to support their re-election.

The Fund supported the resolutions.

4.4 Crest Nicholson (AGM)

The remuneration report also proved to be of concern to shareholders with almost 40% of voting shareholders opposing the resolution.

It was considered that the performance conditions relating to the company's recent IPO were not proportionate with the subsequent awards, which were also considered excessive. Non-Executive Chair Mr. Rucker and CEO Mr Stone were awarded performance shares and options linked to the IPO, equating to £8,107,983 and £12,835,905, respectively and senior staff were also rewarded through this scheme. As a result, total realised rewards under the incentive schemes were considered to be excessive.

The Fund opposed the resolution to approve the remuneration report

4.5 BWIN.Party Digital Entertainment (AGM)

Shareholders were asked to approve a new Long Term Incentive Plan (LTIP) at the annual meeting of global online gaming company BWIN.

The first element of the plan allows a maximum annual opportunity of 250% of base salary. The second element is an annual bonus scheme up to a maximum of 300% of base salary paid in shares based on the level of satisfaction of transformational and strategic objectives measured each year. The shares earned are subject to a three year vesting period with the conditions that the plan cannot be sold and the Participant has to remain in employment five years after the date of grant irrespective of whether the participant is employed by this Company or not.

The potential award under the proposed LTIP was considered to be excessive as it could represent up to 550% of the participant's base salary.

The Fund opposed the resolution to amend the Long Term Incentive Plan

5.0 Overseas Issues

5.1 Whole Foods (AGM) – USA

Board independence, remuneration and voting procedures were issues at the AGM of food supplier Whole Foods.

There were significant concerns over a number of directors seeking re-election. Non-Executive directors Dr John Elstrott and Gabrielle Greene were not considered to be independent having both served on the board for more than nine years.

In addition, Shahid Hassan was also not considered to be independent as he has previously served as a consultant to the company. Mr Hassan also founded Fresh & Wild Ltd, an organic food retailer which was acquired by Whole Foods in 2004. The situation is exacerbated by the fact that Mr Hassan also serves on the company's audit committee. Therefore this compromises the overall independence of this committee.

With several other directors who had also served on the board for a number of years seeking re-election there was insufficient independence on the board overall.

The Fund withheld votes for each of the resolutions to re-elect.

5.2 Adobe Systems Inc. (AGM) – USA

The Board was looking to approve an amendment to the annual share incentive plan to increase the number of shares reserved for issuance by 8.85 million of common stock. As of 31 January 2014, an aggregate of 36,123,517 shares of their common stock remained available for future grants under their 2003 Plan. The increases in award limits were designed, primarily, to increase the potential compensation of the CEO, as well as other named executive officers in future years. However, the contracts and compensation of the executive officers were already considered to be excessive.

This proposal was the second consecutive year that an amendment to the share plan was made and in 2013 the request was for the issuance of 17.5 million of common stock. These aggregate requests were viewed as overly dilutive to existing shareholdings.

The Fund opposed the resolution.

6.0 Shareholder Engagement

6.1 The Fund's second approach to responsible investing involves engaging with companies in partnerships with like-minded investors.

6.2 This approach is implemented through the Fund's membership of the Local Authority Pension Fund Forum. Joining with other pension funds that have similar views to the Fund, produces a large shareholding group which companies are more likely to take note of and respond to. LAPFF has a current membership of 60 public sector pension funds in the UK with combined assets of over £125 billion.

- 6.3 The mission statement of the Forum is “to promote the investment interests of local authority pension funds and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations”.
- 6.4 LAPFF members regularly meet together to discuss social, environmental and governance issues and ways to promote high standards of corporate behaviour at investee companies. Appendices A-C set out the minutes, newsletter and quarterly engagement report.

7.0 Shareholder Litigation

- 7.1 In addition to voting, the Fund works in partnership with two US lawyers and a class action monitoring agent to return value back to the Fund through litigation where shareholder value has been lost through fraudulent or irresponsible corporate behaviour. These partners are able to identify where litigation has been successful and submit claims on behalf of the Fund. As a result, during the three months to 31 March 2014 more than \$5,800 has been returned to the Fund from several class actions (including US company Pharmacia).
- 7.2 The firms of US lawyers who are responsible for monitoring all of the Fund’s equity holdings are also able to assist and advise the Fund where they feel it may be appropriate to become more actively involved in legal action.
- 7.3 At the previous meeting of the Pensions Committee, members were advised that lawsuits have been brought against Royal Bank of Scotland by shareholders who participated in a £12bn rights issue in 2008, months before the bank came close to collapse and required substantial investment by the Government who still have a controlling shareholding in the bank.
- 7.4 It is alleged that the RBS prospectus for the rights issue contained “serious omissions and misstatements” and that as a result, shareholders lost substantial amounts as the share price fell sharply in the months that followed.
- 7.5 The Fund along with a number of institutional investors including asset managers, wealth managers, pension funds and brokers have recently joined the Group action as a way of recouping some of the losses incurred. The Fund’s losses in the rights issue have been estimated to be in the region of £13m.
- 7.6 Substantial adverse costs protection has been taken out by the law firm leading the group action. Therefore in the event that the action was to be unsuccessful, the adverse litigation costs of the Group should be protected.
- 7.7 Members will be updated as the case progresses.

8.0 Labour Blacklists

- 8.1 Members will recall from the previous meetings of this Committee that Wolverhampton City Council had requested the Fund look into the issue of blacklisting within the construction industry and identify any Fund investments that had been involved in the practice and if necessary to raise this issue with company management. As a result, the Local Authority Pension Fund Forum (LAPFF) has included this matter into their current engagement programme and details of their progress will be reported as it progresses.
- 8.2 So far, two companies are subject to compensation claims over this issue and representatives from LAPFF have approached one of these, Kier Group and have reported a positive dialogue with management who have agreed to set up a meeting.
- 8.3 The other company subject to a compensation claim is Wolverhampton based Carillion and LAPFF representatives have agreed to set up a meeting with the company to discuss this issue further. In addition a letter has been written to Carillion to request an engagement meeting. As no response was forthcoming from Carillion, LAPFF representatives have written a follow-up letter to Carillion and further potential action that can be taken will be discussed at the next quarterly meeting of the LAPFF executive.

9.0 Aerospace and Defence Investment

- 9.1 As reported at previous meetings of this Committee, a number of enquiries and a petition have been received from Mr Paul McGowan who is linked to a Coventry based group known as the Justice and Peace Group. This series of enquiries has expressed concerns about the Fund's investments in companies that have links with the defence industry.
- 9.2 A number of replies have been sent out to Mr McGowan outlining the way the Fund handles responsible investment issues and the need for the Fund to ensure the best possible return for its members. The Fund has also stated that whilst a policy of exclusion can pose an adverse risk to returns, direct engagement with companies enables the Fund to protect and enhance shareholder value.
- 9.3 In March 2014, the Committee agreed that it would not sanction disinvestment but did ask that LAPFF engage with the following companies: Alliant Techsystems (USA), Doosan (South Korea), Textron (USA), General Dynamics (USA), L-3 Communications (USA) and Lockheed Martin (USA). In June 2014, LAPFF agreed to the above noted engagement program and the Fund will report to the Committee on its development and findings accordingly.

10.0 UKSIF

- 10.1 In the past few weeks, the Fund has become a signatory to become an affiliate member of UKSIF, the UK Sustainable Investment and Finance Association.

10.2 The UK Sustainable Investment and Finance Association, commonly referred to as UKSIF, is the membership network for sustainable and responsible financial services. Its job is to promote responsible investment and similar forms of finance that “support sustainable economic development, enhance quality of life and safeguard the environment”. It publishes reports, provides guidance to government and is a staunch campaigner for all aspects of sustainable finance.

11.0 Fiduciary duty and exclusion of investments on social and ethical grounds

11.1 Over the past year, the Fund has been asked to consider excluding investments on ethical and social grounds, notably tobacco and certain armaments companies. With a highly diversified portfolio, it is inevitable that investments are made in sectors that attract a variety of strong views and opinions. To date, the Fund has not excluded any investments on such grounds because exclusion poses an adverse risk to the delivery of required investment returns. Instead it has sought to ensure that the companies in which it invests adhere to the highest standards of social, ethical and governance standards through a programme of engagement. This is carried out with other like-minded investors through groups such as the Local Authority Pension Fund Forum (LAPFF).

11.2 Other LGPS funds have also been asked to consider investment exclusion. In the light of such requests, the Local Government Association, on behalf of the LGPS Shadow Scheme Advisory Board, instructed Nigel Giffin QC on the following:

- Does an LGPS administering authority owe a fiduciary duty and if so to whom it is owed?
- How should the wider functions, aims or objectives of the administering authority influence the discharge of its LGPS investment duties?

11.3 Mr Giffin’s conclusions, set out in an opinion dated 25 March 2014 now available on the LGPS Advisory Board website, are as follows :

- In managing an LGPS fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing). In Mr Giffin’s view, the administering authority owes fiduciary duties both to scheme employers and to scheme members.
- The administering authority’s power of investment must be exercised for investment purposes and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments and to what is best for the financial position of the fund (balancing risk and return in the normal way).
- However, so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. In taking account of any such considerations, the administering authority may not prefer its own particular interests to those of other scheme employers, and should not seek to impose its particular views where these would not be widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

11.4 Because of the administering authority's fiduciary duties and the risk that investment exclusion will be detrimental to the successful delivery of investment returns as well as increase portfolio risks arising from a more limited investment opportunity set, it is recommended that the Fund continues to adhere to its policy of engagement (thereby influencing and improving corporate behaviour) and does not adopt exclusion. Further, it is recommended that the advice from Mr Giffin, that the administering authority should not seek to impose its views where these would not be widely shared by other scheme employers and members should be noted. If the Fund receives any further requests on such matters, they will be presented to the Committee for specific consideration.

11.5 It should be emphasised that the Fund's primary duty is a fiduciary one. The Local Government Pension Scheme is controlled by Government regulation which authorises the administering authority to make investments which are entirely directed to financially prudent investing and to ensure the best possible return for its members. Instead of adopting a strategy of excluding companies, engaging with company management on a variety of good governance themes allows the Fund to influence and improve corporate practice. Whilst a policy of exclusion can pose an adverse risk to returns, direct engagement with companies enables the Fund to protect and enhance shareholder value.

12.0 Financial implications

12.1 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.

13.0 Legal implications

13.1 The Fund will work closely with one of its advisors, US legal firm Grant and Eisenhofer who have substantial experience in corporate and securities litigation and in acting as corporate governance counsel. They in turn will work with their UK partners Stewarts' Law who are the UK's largest litigation only law firm and specialise in high value and complex disputes.

14.0 Equalities implications

13.1 This report has no implications for the Council's equal opportunities.

15.0 Environmental implications

15.1 Environmental implications are addressed through the Fund's corporate governance policy.

16.0 Human resources implications

16.1 This report contains no direct implications for the Authority's Human Resources Policies.

17.0 Corporate landlord implications

17.1 The report contains no direct corporate landlord implications.

18.0 Schedule of background papers

18.1 There are no background papers except those listed in the report.

Local Authority Pension Fund Forum
LAPFF Business Meeting minutes
Tuesday 25 March 2014

Minutes

1. Apologies

Received from:

Cllr Doug McMurdo	Bedfordshire Pension Fund
Cllr Terry Davies	Dyfed Pension Fund
Dylan Jones	Dyfed Pension Fund
Mark Lyon	East Riding Pension Fund
Nick Weaver	Hampshire Pension Fund
Cllr Peter Brayshaw	LB Camden
Howard Bluston	LB Harrow
Cllr Richard Greening	LB Islington
Cllr Alec Kellaway	LB Newham
Susan Martin	LPFA
Marlyn McConaghie	Lothian Pension Fund
Cllr Pat Glasman	Merseyside Pension Fund
David Murphy	NILGOSC
Alex Younger	Norfolk Pension Fund
Cllr Bert Turner	West Midlands Pension Fund

The Chair advised the meeting that Howard Bluston was unable to attend due to ill health. The Chair asked that a get well message be sent to Howard from LAPFF.

Present:

Liz Woodyard	Avon Pension Fund
Cllr Mike Drew	Avon Pension Fund
Geoff Reader	Bedfordshire Pension Fund
Gill Welbourn	Cumbria
John Shepherd	East Sussex Pension Fund
Alastair McGirr	Falkirk Pension Fund
Tom Harrington	Greater Manchester Pension Fund
Cllr Kieran Quinn	Greater Manchester Pension Fund
Keith Bray	LAPFF Officer
Peter Taylor	LB Camden
Cllr Toby Simon	LB Enfield
Cllr John Gray	LB Newham
Caroline Watson	LB Southwark
Cllr Nev Jackson	Lincolnshire CC
Cllr Cameron Rose	Lothian Pension Fund
Robert Mayes	Norfolk Pension Fund
Ciaran Guilfoyle	Nottinghamshire Pension Fund
Cllr Alastair Bews	North East Scotland Pension Fund
Caroline Mann	North East Scotland Pension Fund
Fiona Jump	Royal Borough of Greenwich Pension Fund
Caroline Watson	LB Southwark
Jane Firth	SYPA
Tim Byford	Staffordshire
David Evans	West Midlands Pension Fund
Geik Drever	West Midlands Pension Fund

Rodney Barton
Ian Greenwood

West Yorkshire Pension Fund
West Yorkshire Pension Fund

In attendance:

Tim Bush

PIRC Ltd

Alix Foulonneau

PIRC Ltd

Janice Hayward

PIRC Ltd

Alan MacDougall

PIRC Ltd

Tessa Younger

PIRC Ltd

2. Declarations of interest

None

3. Approve minutes of the LAPFF business meeting held on 22 January 2014

The minutes were agreed.

4. Note minutes of LAPFF Executive meeting held on 11 March 2014.

The minutes were noted.

5. Report of the Hon Treasurer

GD presented the report.

The report was noted.

6. Forum Officer's report

KB presented the report.

KB also raised two issues on behalf of member funds.

LAPFF had distributed a questionnaire on behalf of SYPA, so far SYPA have received 21 replies. It would be appreciated if more members could respond to the SYPA questionnaire.

LB Barking & Dagenham could not attend the meeting, and had asked KB to raise the issue of the Share Action letter to LAPF funds regarding the proposed drilling for oil in the Arctic by Shell.

TY advised that LAPFF had engaged and met previously with Shell but not specifically on the Arctic drilling issue.

It was agreed that a meeting request be sent to Shell to discuss the issues regarding the Arctic drilling. It was also agreed that a briefing note be prepared for LAPFF members in response to the Share Action report.

7. Shadow Pension Board update (verbal report)

KQ advised that the board were working on the call for evidence data. KQ also advised that a special meeting of the board had recently been scheduled with the minister but unfortunately the minister was unable to attend.

IG reported on the Investment and Engagement sub committee work. IG advised that the Counsel's opinion that had been commissioned on fiduciary would be available soon on the Pensions Board website.

Cllr Neville Jackson asked where the board was with regard to the original timetable, KQ advised that they were approximately six months behind.

IG advised that the report on LAPFF engagement would be presented at the next meeting of the Investment and Engagement Sub committee.

8. Barclays; pay and dividends

TB presented the report.

The recommendations were agreed.

9. Majority controlled companies update

TB presented the report.

IG proposed that a meeting is arranged with Schrodgers as an example of a well run family company.

The recommendations were agreed.

10. Quarterly engagement report

TY presented the report.

TY advised that Cllr Peter Brayshaw of LB Camden, had attended the Lonmin AGM on behalf of LAPFF and asked a question regarding progress on the 'five-point plan'.

LAPFF also met with Afren represented by Cllr Toby Simon to discuss executive remuneration. KB attended as an observer.

Cllr Simon also attended the meeting with Roche Holdings where discussions with the company focussed on pay with particular emphasis on the CEO pay of £8 million which is more than their competitors executives' remuneration.

LAPFF also met with the Hong Kong based Jardine Matheson for the first time, and was represented by Peter Brayshaw and Geik Drever. LAPFF discussed the importance of independent directors given that the Keswick family is a controlling shareholder and three family members are directors.

TB presented an update on reliable accounts, that included EU and the governance of the IASB, and a plan for the continued engagement with the banks.

The report was noted.

11. Training for members

TY presented the report.

The recommendations were agreed.

12. PRI Questionnaire response

The report was noted.

13. Pensions Board IE Sub committee report

The report was noted.

14. List of Business meeting dates, 2014 and 2015

The report was noted.

15. Presentation: Richard Murphy 'The Fair Tax Mark'

Richard presented the 'The Fair Tax Mark' which launched in February 2014. This is initially for UK based companies, and the aim is for companies to advertise that they have a low tax risk.

The Fair Tax Criteria is as follows:

Companies must:

- Have a tax policy that's published and avoids tax risk
- Be transparent about where they undertake what activities and indicate its scale
- Publish very clear tax data in their accounts – both numerically and with narrative explanation
- Make clear they don't avoid tax

Richard also set out areas where the Fair Tax Mark is encouraging better disclosure, such as the company's tax policy, tax risk, tax liabilities etc.

The goal of the Fair Tax mark is for tax reporting standards to deliver the information that consumers, investors, the investment community, companies and the accounting community need.

Richard asked the meeting whether LAPFF would want to be involved and what that input might be.

KQ thanked Richard for his presentation.

There followed a Q&A session with the members, some are included in these minutes.

Q: What will companies gain from 'The Fair Tax Mark'?

A: They will be able to display the logo on their materials. This will alert consumers, investors etc to the fact that they have adhered to the principles, thereby reducing risk and reputational damage.

Q: What do you want from the investor community and does it involve money/contribution.

A: Read the documentation and come to some of the meetings of the technical group.

Q: What is the Treasury's attitude to this?

A: Caroline Lucas has welcomed it, saying that it would have to be managed properly.

Q: Why not go to the government and ask what is legal and what is illegal and let the companies take the necessary action.

A: Some companies may operate in numerous countries and they can choose which law and which accounting system they want to use. What is legal is an extremely grey area.

16. Any other business

There was no other business.

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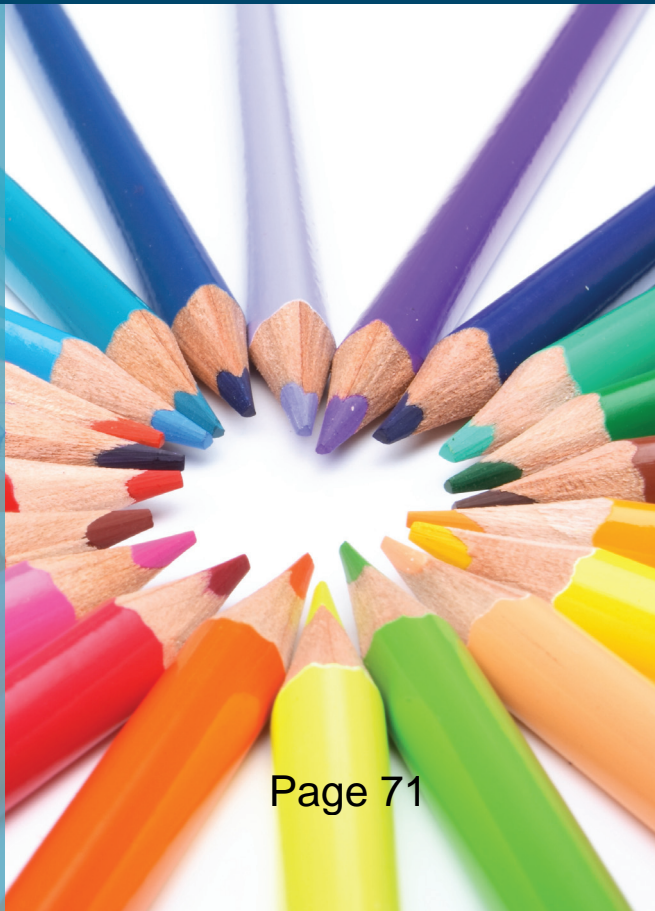
the view from the forum

**Banks' post mortem
follow-up: reliable
accounts**

**Board diversity
strategy**

**Leadership on
key campaigns**

**Membership hits 60
as Hampshire, East
Sussex and Lambeth
join the Forum**



The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 60 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

For more information about the Forum, contact Forum Officer, Keith Bray on 07811 800612.

Alternatively, you can email postmaster@keithbray.plus.com or visit our website at www.lapffforum.org

LAPFF membership as at 10 February 2014

- Avon Pension Fund
- Bedfordshire Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cumbria Pension Fund
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- East Riding Pension Fund
- East Sussex Pension Fund
- Falkirk Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Gwynedd Pension Fund
- Hampshire Pension Fund
- Lancashire County Pension Fund
- Lincolnshire County Council
- London Borough of Barking & Dagenham
- London Borough of Camden
- London Borough of Croydon
- London Borough of Ealing
- London Borough of Enfield
- London Borough of Hackney
- London Borough of Haringey
- London Borough of Harrow
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lambeth
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Southwark
- London Borough of Tower Hamlets
- London Borough of Waltham Forest
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- North East Scotland Pension Fund
- Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)
- North Yorkshire County Council
- Nottinghamshire County Council
- Rhondda Cynon Taf Pension Fund
- Royal Borough of Greenwich
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- South Yorkshire Integrated Transport Authority
- Staffordshire Pension Fund
- Surrey County Council
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire County Council
- West Midlands Pension Fund
- West Midlands PTA Pension Fund
- West Yorkshire Pension Fund
- Wiltshire Pension Fund
- Worcestershire County Council

Banks' post mortem follow-up: reliable accounts

In December 2011, LAPFF published 'UK and Irish Banks Capital Losses - Post Mortem' which considered the collapse of the capital adequacy regime of banks in the UK and the Republic of Ireland.

These two jurisdictions have common accounting standards in terms of UK/Irish Generally Accepted Accounting Principles (GAAP) and have a similar method of implementation of International Financial Reporting Standards (IFRS).

It was clear from the LAPFF analysis that the Basle capital adequacy regime failed due to the systematic failure of the accounting standards regime. In large part, this was due to the fact that it made sub-standard lending appear highly profitable whereas, for example, French banks in contrast used prudent French GAAP which does not mask insolvency.

Since then, the LAPFF's analysis has been fully supported by the outcome of the Prudential Regulatory Authority's (PRA) review in late spring 2013, which addressed the overstatement of bank capital, including systemic IFRS overvaluation of loans. LAPFF has since met with representatives of European central banks as well as Japanese government representatives, and the analysis and conclusions of the banks' post mortem have not been challenged. Through the autumn of 2012 and the spring of 2013, LAPFF worked closely with a consortium of other asset owners and managers including USS, Railpen Investments, Royal London Asset Management, Sarasin Partners, Governance for Owners and the UK Shareholders Association to track down the origin and causes of this fundamental weakness in the way IFRS had been



implemented and were actually operating in the UK capital market. This consortium, known as the **IFRS Investor Coalition**, pooled their knowledge and experience together to seek independent redress of the problems identified.

In the summer of 2013, LAPFF, together with the Investor Coalition, sought counsel's opinion to advise on the consistency between International Financial Reporting

Standards and the Companies Act 2006 and this opinion, from Mr George Bompas QC, was submitted as evidence to the Parliamentary Commission on Banking Standards, which was published on 19 June 2013 in the commission's final report.

That opinion cast doubt about the requirements under IFRS compared to the law applicable under the Companies Act 2006. Mr Bompas also addressed whether Mr Martin Moore QC's opinion in 2008 for the FRC (Financial Reporting Council) could be relied upon.

Mr Moore responded on behalf of the FRC in October 2013. However, having made a detailed analysis of that response the LAPFF notes the following:

- The Moore response is in the form of a statement; it is not given the title of an 'opinion'.
- In the statement, Mr Moore still does not state whether in his opinion IAS 1 both requires and permits an override of an IFRS that does not give a true and fair view - without qualification to extraneous material, such as referring to other 'frameworks' that are not actually company law.
- Every question that Mr Bompas was asked, and responded to, has been changed materially in the Moore statement by words being left out, changed and, in one case, an entirely different question altogether being presented.
- The Moore statement also opens up a new dispute with Mr Bompas' position on a specific point of law. The point of law is whether companies should be **showing**, as distinct from **accounting** for privately, distributable reserves and profits versus



Mr George Bompas QC



Mr Martin Moore QC

undistributable reserves and unrealised profits. The Forum notes that a failure to show such reserves and profits creates problems:

- It is inconsistent with explicit auditor duties in the Companies Act, including their duty to be passing an opinion on the distributable profits as stated in the accounts, the point on which the FRC has explicit guidance.
- It is inconsistent with the explicit requirement in the Companies Act that auditors cannot sign off on accounts where the numbers in the accounts are not in agreement with the underlying records, and unless they state that fact, they are guilty of a criminal offence.
- It cannot be explained by the construction of the 1947 Companies Act where 'true and fair view' is explicitly the legal standard to satisfy both internal control requirements ('the books') as well as for the annual accounts.
- LAPFF notes that the only authoritative basis cited by Mr Moore for a difference of opinion with Mr Bompas is from technical advice from the Institute of Chartered Accountants in England and Wales (ICAEW) which Mr Moore had reviewed for the ICAEW. However, it does not address the problems above, and no formal opinion seems to exist for it. The Moore position is therefore

different not only to that of Mr Bompas, but also to Mr Bompas' citation of very clear case law.

A statement from Baroness Hogg, Chair of the Financial Reporting Council (FRC), in October 2013 appears to be a positive step, and is a partial concession that something indeed has been very wrong. **However, the fact remains that five years on from the banking crisis, investors are still not receiving adequate information from the annual accounts, nor assurance from auditors, and this appears to be due to the accountancy profession and standard setters operating to a different model to that of the law.**

LAPFF is still of the view that until there is an independent enquiry into the failures of the IFRS standard-setting and adoption process, matters will not be settled within an appropriate timescale. The consequences of faulty accounts not discharging solvency duties under the Companies Act create too many conflicts for the various parties involved, particularly when the companies involved are as large as banks.

Footnote

In an article published on February 10, 'Watchdog for financial reporting breaches its own rules', The Telegraph has revealed that the IFRS whose job it is to set "high quality, understandable, enforceable and globally accepted" financial reporting rules, has, for more than a decade, delivered late and inaccurate filings at Companies House.

The Forum continues to take legal advice with regard to these matters.

Board diversity strategy

A LAPFF member requested that the Forum consider supporting Legal & General Investment Management's (LGIM) new voting policy with regard to board diversity. **On 10 October 2013 it was reported that from 2015, LGIM "will vote against the chairman or the chairman of the nominations committee if they have not installed any women on the board, or if aspirational targets have not been set, or if disclosure about gender balance is inadequate."**

LAPFF has been a member of the 30% Club Investor Group since 2012. The group's mission is to promote board diversity by seeking personal commitments from chairmen of UK companies. The 30% Club emphasises a voluntary approach, led by corporate directors, and is strictly against implementing quotas for fear it would lead to tokenism. Other investor members include LGIM, Aviva Investors, Blackrock, and Aberdeen Asset Management.



While progress has been made, there is still more work to be done. Women comprise 24% of non-executive director (NED) positions in the FTSE 100, but only 19% of overall board positions due to a lower representation of women in executive posts. Improvements by FTSE 250 companies have also been steady, with female board representation overall at 14.9%, an increase from 7.8% in 2010.

In October 2013, Vince Cable issued a press release stating: "I am confident we can get over the finish line. But appointing more women as non-executive directors is not an end in itself. This is about more talented women getting executive experience, so that they will not only advise, but run this country's great companies."

The Forum has been routinely raising board diversity as an issue with companies since joining the 30% Club in 2012. Often, this has taken place as part of engagement with a company on other governance issues but together with four other investors in this group, LAPFF has written to Vedanta, Antofagasta and London Stock Exchange as companies that currently have no women on their boards, to request a meeting.

A meeting with the chairman of the London Stock Exchange has been arranged.

In keeping with LAPFF's commitment to the 30% Club, the following action will be taken.

The Forum will:

- Issue a public statement in support of LGIM's board diversity initiative;
- Adopt a recommended voting position as follows:
 - Vote against the chairman of the nomination committee if there are no women on the board;
 - Abstain on the chairman of the nomination committee if female representation on the board is less than 25%.
- This voting position will be reviewed to take into account the particular circumstances of individual companies;
- Write to companies in the FTSE 100 informing them of the LAPFF voting position;
- Issue voting alerts in the 2014 season on the FTSE 100 companies that fail to meet the above criteria.

Leadership on key campaigns

The Forum met with Rod Eddington, the lead independent director of 21st Century Fox (formerly News Corporation) at the start of October, shortly before the company's AGM.

LAPFF repeated its belief that the company would benefit from the appointment of an independent chair, and that this could aid the succession process. At the company's AGM in the middle of the month, two thirds of independent shareholders backed a resolution calling on the company to appoint an independent chair. LAPFF had issued an alert advising members to support the resolution.

Blacklisting

Following a request from a member fund, LAPFF has undertaken work on the issue of blacklisting. At the October business meeting, it was agreed to write to the major construction firms, and to encourage them to press ahead with the creation and implementation of a compensation scheme for those workers who had been affected by blacklisting.

Other news in brief

The LAPFF:

- Met with **Standard Chartered**, **M&S** and **Burberry** to discuss remuneration issues and get company feedback on LAPFF's *'Expectations for Executive Pay'* document.
- Focused on 'stranded assets', carbon management strategies and CDP performance scores with **BP**. A meeting with **GlencoreXstrata** also initiated a discussion on these issues.



- Attended AGM of **Lonmin** and, in questions, pressed the company on timescales and metrics of its plans to improve social, community, and labour relations following last year's shootings by police of striking miners.
- Corresponded with **Afren**, **easyJet** and **G4S** regarding pay practices and pay complexity and is to seek further meetings



- Sent a letter to **Oracle** outlining LAPFF's concerns about executive pay. The company lost its pay vote for the second year in a row, but the board remains defiant.
- Co-signed letters to major US, European and Japanese consumer companies in the palm oil supply chain on the sustainability of their supplies.



- Responded to the FRC consultation on the strategic report raising concerns about its status and compatibility with UK company law and the preparation of annual accounts for shareholder approval. Provided input to the SEC on pay ratio disclosure.



LAPFF membership hits 60 as Hampshire, Lambeth and East Sussex join the Forum.

Councillor Kieran Quinn, Chair of the Local Authority Pension Fund Forum, has welcomed decisions by the Hampshire Pension Fund, London Borough of Lambeth Fund and the East Sussex Pension Fund to join the Local Authority Pension Fund Forum.



Hampshire
County Council



Lambeth

East Sussex
County Council



Three more local authority pension scheme funds have joined the Forum since the beginning of the year, taking our membership to 60. The Hampshire Pension Fund and London Borough of Lambeth Fund joined following discussions with the funds' officers, and the East Sussex Pension Fund joined following a presentation to the East Sussex Pension Fund Investment Panel by Forum Officer, Keith Bray.

Forum Chairman, Councillor Kieran Quinn said: *"It is brilliant news that the LAPFF has reached 60. We already have a very high profile and this is raised even higher by the decisions of Hampshire, Lambeth and East Sussex to join the Forum.*

"They will receive the warmest of welcomes and we look forward to benefitting from their contributions to our development. A clear majority of local government pension scheme funds are now LAPFF members, and recognise the immense value of the Forum as the only national organisation focussed entirely on LGPS issues at this particularly challenging time. We urge the remaining funds to come aboard too – by acting together we can achieve so much more."

Funds wishing to learn more about the LAPFF should contact Forum Officer, Keith Bray at postmaster@keithbray.plus.com or by calling **07811 800612**.

Keith will be happy to meet informally or to make a presentation about the benefits of membership to your fund's management committee or investment panel.



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QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2014



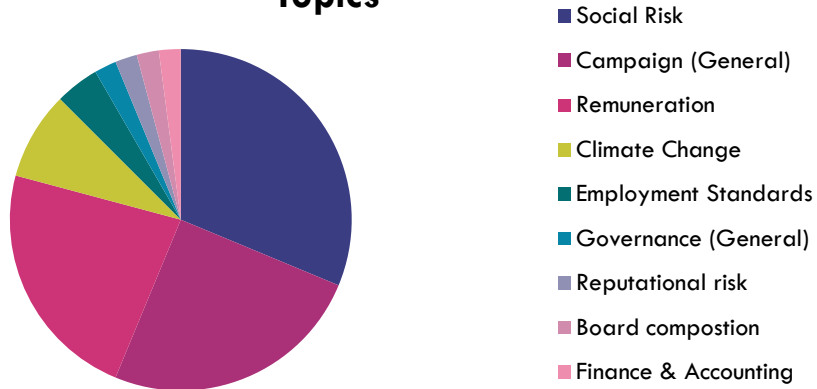
Local Authority Pension Fund Forum

LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £125 billion.

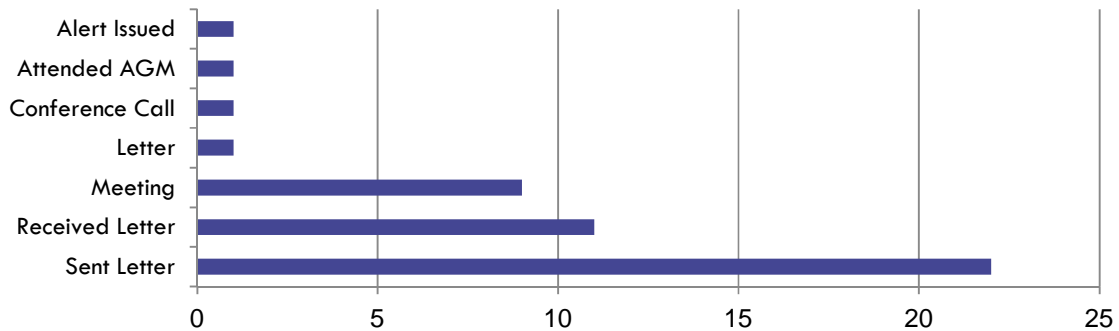
ENGAGEMENT SUMMARY

JANUARY TO MARCH 2014

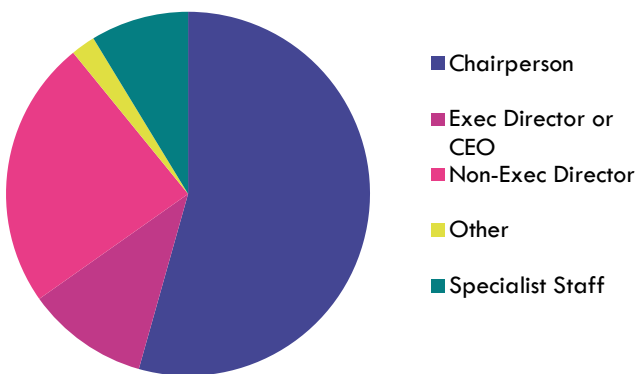
Topics



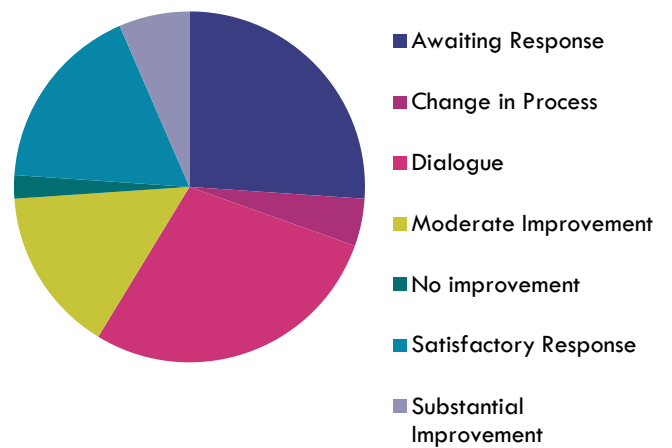
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- **UK Listing Authority** amends listing rules for independent directors in majority controlled companies to only be elected by non-majority members, in line with LAPFF position set out in its response to the 2012 consultation on the issue.
- Attended **Lonmin** AGM as part of ongoing engagement around labour relations, and pressed board members for more detail on the company's 'five-point plan'.
- Held meetings with **easyJet**, **G4S** and **Afren** remuneration committee chairs regarding pay complexity and overall pay awards. Met with **BT** to discuss the company's approach to remuneration.
- Following collaborative engagement on board diversity, **London Stock Exchange** appointed two women to the board.
- Met with the **Nestlé SA** chair, with **Roche Holding** and **Jardine Matheson**, prompted by the Forum's holdings-based approach. Pay was a central focus of these meetings.
- Supported **Wilmar** in its commitment to sustainable palm oil sourcing subsequent to collaborative letters to US companies on the sustainability of their supplies. **Kelloggs** also announced a policy for sourcing sustainable palm oil following engagement.
- Responded with the investor coalition to the second **FRC** consultation on Sharman and Going Concern, to support the original Sharman proposals, not the FRC amendments. Given the opposition the FRC is now going to have to consult for the third time.
- Provided a response to the **Law Commision** fiduciary duty consultation presenting a LGPS perspective on key issues of stewardship, short termism and beneficiaries' interests.

THE FORUM IN THE NEWS

LAPFF leads high profile demands to return to
'prudent' accounting regulations.

[The Telegraph](#) and again [The Telegraph](#)

UK pension funds weigh in on board re-election threat over female director targets

[Responsible Investor](#)

LAPFF challenges bus operator over human rights

[Investment and Pensions Europe](#), [Professional Pensions](#), [Market Watch](#)

Investors demand scalp of Barclays Bonus-setting chief

[The Times](#), [Bloomberg](#)

Early blow for 'say on pay' guidelines

[Financial Times](#)

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

The Forum has progressed its engagement on 'blacklisting' by writing to a further six construction companies supporting the development and implementation of a compensation scheme for any individuals affected by blacklisting. LAPFF requested that the companies work constructively with relevant trades unions and others representing the victims of blacklisting in order to ensure that the scheme is implemented quickly and in a way that is acceptable to those affected. Of the companies contacted, **Carillion**, **Amec** and **Costain** responded, giving further company specific information. Two companies expressed support for a code of conduct aimed at preventing any repetition of similar practices in future.



Together with some members of the Investor Group of the 30% club, LAPFF had written to a number of companies on board gender diversity in late 2013. A meeting had been set up with the chairman of the **London Stock Exchange** as it had no women on its board. However, shortly prior to the meeting, the company announced the appointment of Sherry Coutu and Joanna Shields

to the board. This leaves Glencore Xstrata as the sole FTSE 100 company with no female board directors.

PROMOTING GOOD GOVERNANCE

Holdings Based Engagement

In line with an increasing focus on holdings based engagement, analysis was undertaken on governance and corporate responsibility concerns at those European and Asian companies most widely held by member funds. Letters were sent to six companies and meetings held with Roche Holding and Jardine Mattheson, and LAPFF attended a roundtable with the Nestle chairman.

All three meetings sought to establish a positive, ongoing dialogue and understand each company's approach to managing shareholder concerns over governance and company specific issues. Nestlé and Roche Holding are both Swiss companies, for whom the mandatory pay vote was a key concern and thus was a core component of discussion.

The conversation with **Roche Holding** was a first and explored the possibility of strengthening minority shareholder rights as descendants of the founding families own 45% of issued share cap and another Swiss pharma company owns a further one third of shares. On remuneration,

further clarity was sought on clawback and introductory payments. LAPFF also sought a better understanding of the company's approach to patents and their application in developing countries.

The Forum previously met with **Nestlé** in 2011, to discuss a range of governance issues including compensation and succession planning. The meeting this quarter was in the form of a chairman's round-table. The chairman set the agenda around the new requirement for a binding vote on pay in Switzerland, the 'Minder' initiative. One concern raised was that the framework for informing variable pay is opaque and makes it difficult for investors to assess whether amounts paid were in line with performance expectations.

The meeting with **Jardine Mattheson** was a first for LAPFF. The Keswick family is a controlling shareholder of this Hong-Kong based conglomerate, with three family members holding board positions as chair, managing director and deputy managing director. LAPFF explored the importance of independent directors and the company's recent decision to withdraw from a premium listing in London.

Executive Pay

Meetings continued with companies to solicit feedback to LAPFF's [Expectations for Executive Pay](#) document. A meeting with Patricia Hewitt, the remuneration chair at **BT Group** was prompted by the LAPFF's positive viewing of the company's decision to reduce the short-term bonus opportunity for the Chief Executive of BT Retail. The company places greater emphasis on variable pay in relation to base pay than the Forum promotes. However, in doing so this does appear consistent with seeking to ensure widespread financial participation in the performance of the firm. The focus on variable pay also helps ensure that pay awards are felt to be fair throughout the Company.



Other company meetings aimed to focus on complexity in pay practices. In the Forum's view excessive complexity can confuse both executives and shareholders and obscure the relationship between executives' everyday actions and the expected outcome of better shareholder return.

easyJet had been identified as a company that had received significant dissent over its pay practices at its 2013 AGM and had been making its long-term incentive plan (LTIP) metric more complicated over time. The company regularly consulted with institutional shareholders and moved from a return on equity to a return on capital employed metric. After further consultation with shareholders, leases were then included in this measure. On further consultation a measure of relative total shareholder return was added. It was clear that the company had been proactively consulting with its institutional investors to ensure pay practices

were in line with their expectations. Prior to the 2014 AGM, the Forum issued a voting alert recommending members approve the remuneration report.

The Forum also had discussions over remuneration disclosure with **G4S** in particular for the 2012 period. The company clarified that the only long-term award that accrued for that period was under the TSR metric and that disclosure could be clearer as regarded adjustments to incentive scheme metrics in future. G4S recognises the down-side of complexity in remuneration scheme metrics but they have to balance this against the benefits of aligning the scheme with the company's strategic objectives.

As a company that only listed in 2005, **Afren** has grown rapidly and entered the FTSE 250 in 2010. LAPFF has met with company representatives several times since 2011 to discuss its remuneration practices. The company has had high oppose votes in four of the last five years including its pay vote being defeated at the 2013 AGM. A major issue previously had been the ability to award special bonuses and this provision has been removed. At a follow-up meeting, the chair of the remuneration committee was pressed on further measures to ensure that shareholders will view remuneration arrangements as appropriate in the binding vote on pay at the 2014 AGM.

Reliable Accounts

LAPFF had, under the former LAPFF Chair, met with Baroness Hogg Chair of the Financial Reporting Council (FRC) regarding problems with International Financial Reporting Standards (IFRS) and the implications for the accounts (and the audits of banks). The FRC public position remained positive towards IFRS despite strong criticism in the UK and EU Parliaments.

LAPFF also engaged with Sir Win Bischoff (outgoing chair of Lloyds Banking Group) who had been publicly critical of IFRS. Sir Win is now the incoming chair of the FRC from 1 May 2014 which LAPFF supports. (LAPFF with the investor coalition had written to Vince Cable with the view that the new FRC Chair should not be from one of the Big 4 accounting firms).



An Evening Standard article dated 28 February 2014 is an interview with the outgoing Baroness Hogg. The headline is "the numbers must add up next time, warns the Footsie's first lady". In it she also expresses concern about the effectiveness of bank auditors and the delay in the FRC investigating accounting/audit failures.

MANAGING ENVIRONMENTAL RISK

Palm oil

Following its engagement with a number of US companies on sustainable palm oil, LAPFF signed an investor statement of support for **Wilmar's** recently announced commitment to eliminate deforestation, peatland development and human rights violations from its palm oil supply chain. Wilmar is the world's largest palm oil trader, controlling 45% of the global palm oil trade and the aim of the statement was to ensure that the company was appropriately recognised for their groundbreaking commitment.

Wilmar and Kelloggs commit to eliminate deforestation from their palm oil supply chains

The Forum had already written to **Kelloggs** on this same concern, in collaboration with other investors in late 2013. In February, Kellogg's announced a policy to only purchase sustainable palm oil with a target of end 2015 for compliance.

Energy and Environmental Risk

Continuing its engagement with listed companies on 'fracking' activities, LAPFF is participating in a collaborative initiative coordinated through the PRI with a number of asset managers and asset owners. The Forum has co-signed letters to six companies in the oil and gas sector requesting meetings aimed at ensuring a proper understanding of the risks involved and to encourage best practice to minimise these risks.

TARGETING SOCIAL ISSUES

Employment Standards

Following correspondence in late 2013 with **Lonmin** regarding media coverage of actions during the 2012 Marikana mine incident, LAPFF attended the company's AGM for the second year running in January. Over the year, there have been a number of board changes, including the appointment of the new chief executive, Ben Megara.

The Chair and Chief executive gave useful updates on progress on the company's 'five-point plan' and wider initiatives. The company has recovered well from the impact of the previous wildcat strike, but is now being badly hit by the recently started protected strike by the Association of Mineworkers and Construction Union (AMCU). Cllr Brayshaw pressed for as much detail as possible on plan projects, timescales and metrics, in particular on reforming shift patterns, housing provision, on the



local/migrant labour balance and on other points in the plan. He indicated LAPFF would continue positive dialogue with on overall progress at its various South African operations.

Further changes have emerged at **Deutsche Post** following engagement by LAPFF, unions and other investors. These have been negotiated through a settlement mediated by the German National Contact Point for the OECD Guidelines for Multinational Enterprises and include assessments of industrial relations with affiliate unions in India and Columbia.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

LAPFF remains closely involved in shaping the debate around the proposed restructuring of the Local Government Pension Scheme. The LAPFF chair and vice-chair are active members of the **LGPS Advisory Board Investment and Engagement Subcommittee**. The Forum submitted a report to the Subcommittee on 'Local Authority Pension Funds and Active Stewardship' setting out how LAPFF operates to bring together funds to engage collectively and effectively.



LAPFF has been concerned about the governance of both the process of setting accounting standards and of the Financial Reporting Council. One aspect of concern is the dominant representation of the Big 4 Accounting firms, their immediate alumni, investment banking interest and sell-side analysts. LAPFF and the investor coalition have not engaged directly with the IASB because of these governance concerns, instead have engaged with accountable parties aiming to make the IASB accountable.

During January and February, the Economic Affairs Committee of the EU Parliament followed up on Daily Telegraph reports of serious compliance issues with the IASB being up to seven years in arrears with Companies House filings. The matter has been pursued by a cross party coalition of MEPs including UK Lib Dem Sharon Bowles MEP and UK Conservative leader Syed Kamall MEP, plus the Greens and Socialists. The IASB issued a public rebuttal which was then proven wrong.

CONSULTATION RESPONSES

In response to a request from the Department for Business, Innovation & Skills (BIS) and the Department for Work and Pensions (DWP) the **Law Commission** issued a consultation on how fiduciary duties currently apply to those working in financial markets. This asked questions to flesh out views on how far pension duties require trustees to maximise financial return over a short time scale, and how far trustees can consider other factors, such as environmental and social impact. [LAPFF's response](#) presented a LGPS perspective on key issues of stewardship, short termism and beneficiaries' interests.

A response was also provided to the **Financial Reporting Council's (FRC)** second consultation on Risk management, Internal Control and the Going Concern Basis of Accounting. In its [response](#), LAPFF strongly supported the original Sharman proposals not the amendments proposed by the FRC, pointing out that recent FRC statements on the quality of audits at UK banks would suggest that directors and auditors should be undertaking their basic task properly as opposed to reviewing a list of generalised risks. The FRC is now in a position of having to re-consult, i.e. for a third time.

All LAPFF consultation responses can be viewed at: <http://www.lapfforum.org/consultations>.

NETWORKS & EVENTS

Representatives of LAPFF regularly attend conferences and events on behalf of members. A list of recent events attended is as follows:

- **ICGN - PRI meeting** – board composition and director elections
- **PRI Fixed Income Event** – hosted by AXA Investment Managers
- **Centre for the Study of Financial Innovation** – round table on carbon bonds

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Afren	Remuneration	Moderate Improvement
AIA Group	Holdings Based Engagement	Awaiting Response
Amec	Blacklisting	Satisfactory Response
Balfour Beatty	Blacklisting	Awaiting Response
BT Group	Remuneration	Satisfactory Response
Carillion	Blacklisting	Dialogue
Costain	Blacklisting	Satisfactory Response
Deutsche Post	Social Risk	Substantial Improvement
easyJet	Remuneration	Moderate Improvement
Essar Energy	Governance (delisting)	Awaiting Response
ExxonMobil	Climate Change	Change in Process
G4S	Remuneration	Dialogue
Golden Agri	Sustainable Palm Oil	Dialogue
Hormel Foods	Sustainable Palm Oil	Satisfactory Response
Jardine Matheson	Holdings Based Engagement	Dialogue
London Stock Exchange	Board composition	Substantial Improvement
Lonmin	Employment Standards, Social	Change in Process
N Brown	Social Risk	Satisfactory Response
Nestle	Holdings Based Engagement	Dialogue
Novartis	Holdings Based Engagement	Dialogue
Roche Holding AG	Holdings Based Engagement	Dialogue
RSA	Finance & Accounting	Awaiting Response
Samsung	Holdings Based Engagement	Awaiting Response
Skanska AB	Blacklisting	Awaiting Response
Svenska Handelsbank	Remuneration	Awaiting Response
Trinity Mirror	Reputational risk, Social Risk	Dialogue
Vinci	Social Risk	Dialogue

Companies LAPFF has not previously engaged with individually are indicated in bold. 'Awaiting response' indicates a letter was sent during the period but a written response was not received.



The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £125 billion.

Report prepared by PIRC Ltd. for the
Local Authority Pension Fund Forum

PIRC

www.lapfforum.org

Aberdeen City Council
Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Hampshire Pension Fund
Haringey LB
Harrow LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lambeth LB
Lewisham LB
Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Rhondda Cynon Taf
Shropshire Council
Somerset CC
South Yorkshire Integrated Transport Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

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Pensions Committee

25 June 2014

Report title	LGPS 2014	
Originating service	Pension Services	
Accountable employee(s)	Geik Drever Tel Email	Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendations for noting:

The Committee is asked to note:

1. The activity and progress to date of the implementation of the LGPS 2014 following the finalisation of the regulations in March 2014.

1.0 Purpose

- 1.1 The purpose of the report is to provide Committee with an update on the progress to date of the implementation of the LGPS 2014.

2.0 Background

- 2.1 Following the informal consultation in the summer of 2012 on the proposals for the design of the new Scheme, the Department of Communities and Local Government (DCLG) undertook a series of consultations on the scheme regulations.
- 2.2 The LGPS Regulations 2013 were then subsequently made on 12 September 2013 and laid before Parliament on 19 September 2013.
- 2.3 The Transitional Regulations which set out how scheme members transfer from the 2008 scheme to the 2014 scheme, along with details of how any proposed protections of rights and entitlement will work were then not finalised until 10 March 2014.
- 2.4 These regulations both came into force on 01 April 2014 and have been made under the Public Service Pensions Act 2013.

3.0 Progress

- 3.1 Since the finalisation of the Transitional Regulations in March, the Fund has been working closely with our software provider to specify and develop the changes required to the pension administration system UPM. Due to the delays with the regulations, the Fund have been unable to fully specify the changes required to administer all aspects of the new scheme.
- 3.2 The Fund are trying to minimise the impact on our members to ensure they get accurate information as promptly as possible, however these delays have required the Fund to manage post 1 April work manually. This is a more time consuming approach and therefore some delays may be experienced.
- 3.3 A higher than normal workload in terms of post 1 April 2014 retirements has been received and the Fund are currently working through these as a priority.
- 3.4 Work is well underway with developing and testing the 2014 changes and it is anticipated that the Fund will be in a position to move the initial calculations into the live pension administration system environment by the end of June/early July. This will automate the retirement and early leaver processes and enable employers and members to run retirement quotes on the web portal.
- 3.5 The Government Actuary's Department (GAD) published a number of the guidance documents for the new scheme on 31 March 2014; this included guidance for the

purchase of additional pension and incoming and outgoing transfers. However, there is still some guidance to be published which will support the full working of the regulations.

- 3.6 Employers are regularly being updated through the monthly 'Employer Briefing Note', Employer Peer Group and briefings are written when appropriate.
- 3.7 As part of disclosure regulations, the Fund has written to the membership to inform them about the key changes to the scheme. In April, as part of their annual Club Together mailing, an update of the LGPS 2014 scheme was issued to approximately 80,000 pensioners; and in May, the Fund wrote to approximately 70,000 deferred members as part of their annual benefit statement. Finally, a brief guide to the 2014 scheme was issued to over 92,000 active members during the week commencing 27 May, informing them of the changes to the scheme, information for existing members of the scheme and contribution flexibility.

4.0 Financial implications

- 4.1 The project has been managed from within existing Fund resources and budget; however, there are wider financial implications in terms of the consequences for members. Therefore, manual measures have been put in place to ensure that members transitioning into retirement are receiving an accurate calculation of their benefits based on all tranches of the scheme. In addition, the Fund is currently unable to provide via the online portal an accurate estimate of their retirement benefits built up post 31 March 2014.
- 4.2 With the system still being developed there are further implications for employers, as the facility to calculate any strain costs for the payment of benefits early has not been updated. An interim solution has been agreed with the Fund's actuary for the calculation of early retirement costs and is currently being implemented.
- 4.3 Additional costs will be incurred by the Fund and this will be absorbed within the current year budget approved by Committee in March 2014.

5.0 Legal implications

- 5.1 The report contains no direct legal implications for the Authority, however if delays continue with the implementation of the system there is the potential for challenges from members and the Fund may not meet required regulatory standards i.e. disclosure regulations.

6.0 Equalities implications

- 6.1 This report has no direct equal opportunities implications.

7.0 Environmental implications

- 7.1 This report contains no direct environmental implications.

8.0 Human resources implications

- 8.1 As the Fund continue to make the required changes to the administration system, core staff involved in the project will be required for a longer period than first anticipated. The manual work a rounds for administering the new scheme are resource intensive for operational staff which limits capacity to drive forward other key priorities for the Fund and with the potential to create future backlogs of work.
- 8.2 Furthermore, there will be an ongoing change in processes and procedures to ensure that the required legislation is delivered and built into working practices. Cascading information on the new scheme to all scheme members, managers and employers will continue to be essential, and will need to be delivered in a concise and timely manner.

9.0 Corporate Landlord implications

- 9.1 The report contains no direct corporate landlord implications.

10.0 Schedule of background papers

- 10.1 There are no preceding background papers.



Pensions Committee

25 June 2014

Report title	Governance Reform 2014	
Originating service	Pension Services	
Accountable employee(s)	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	Rachel.howe@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Note the report
2. Consider the proposed changes to the structure of Governance within the Fund.
3. Agree the creation of a Governance Reform Working Party together with its remit outlined in the report.
4. Delegate to the Head of Governance to manage the Working Party going forward.
5. Agree to receive back recommendations on the proposals at September committee.

1.0 Purpose

- 1.1 To provide an outline of the proposed changes to the Governance structure within Local Government Pension Funds brought about by the Public Service Pensions Act 2013 and associated Regulations.
- 1.2 To provide options for the future governance structure and to outline the proposal for consultation with employers and trade unions going forward.
- 1.3 To propose the creation of a Governance Review Working Party whose responsibility will be to consider the proposals, their advantages and disadvantages and to liaise with the Council in making recommendations as to the future structure of the Fund.

2.0 Background

- 2.1 Following the Independent Public Service Pensions Committee report in 2011, the Public Service Pensions Act 2013 brought about a significant number of changes to Local Government Pension Schemes and how they are to be administered.
- 2.2 Having taken effect from 1 April 2014, the West Midlands Pension Fund (WMPF) has successfully implemented the changes to the scheme with the Fund now fully operating under the LGPS 2014.
- 2.3 As well as reforming the administration of the pension scheme, the 2013 Act also proposes to change the way pension schemes are governed calling for a reform in their structure and decision making bodies.

3.0 Current Structure

- 3.1 Since 1986 Wolverhampton City Council ('The Council') has been the Administering Authority for pensions within the West Midlands and under Section 101 of the Local Government Act 1972, have delegated this function to the Pensions Committee.
- 3.2 Currently the Pensions Committee consists of 18 Councillors (drawn from the seven District Councils in the Fund) and 4 non-voting observers (trade unions). The Committee acts as Trustees to the fund ensuring best practice and compliance with the legislative duty.
- 3.3 To assist it in its role the Pensions Committee has delegated some of its responsibility to the Investment Advisory Sub-Committee who advise, monitor activity and performance and oversee the administrative investment management functions of the Fund.
- 3.4 Together with the decision making Committees, the Fund has also created a Joint Consultative Forum. While the Forum has no decision making powers it acts as a level of

scrutiny to the decisions of the Pension Committee who take account of the recommendations provided by the Forum.

3.5 The administrative management of the pension fund is delegated to the Director of Pensions, who together with her officers implements the decisions of the Pensions Committee.

3.6 Attached at Appendix One is the current structure chart of the Fund.

4.0 The Public Service Pensions Act 2013

4.1 The Public Service Pensions Act 2013 ('The Act') outlined new governance structures for Pensions Funds to take effect from 1 April 2015 and propose for a Scheme Manager to be advised by a Pensions Board which is to consist of a proportionate number of employer and member representatives.

4.2 The Act further provides for explicit regulatory oversight of pension schemes by the Pensions Regulator whose role will be to issue Codes of Practice on the governance, standards of conduct and general practices expected of local government pension schemes.

5.0 The Scheme Manager

5.1 Section 4 of The Act requires that each pension scheme has a Scheme Manager who will be responsible for administering and managing the Scheme. (It is generally accepted that this be the Administering Authority with the Secretary of State being the Responsible Authority.) The Scheme Manager will have the ultimate responsibility for the scheme.

5.2 The Scheme Manager is a function which can be delegated under S101 of the Local Government Act 1972, the same as the current Pensions Committee. Therefore the Administering Authority (in our case Wolverhampton City Council) can continue to delegate the responsibility for the administration and management of pensions to the West Midlands Pension Fund.

5.3 The Act further provides that the two roles of administration and management can be undertaken as separate functions by two scheme managers.

5.4 As the Scheme Manager is a function to be delegated by the Council, the Fund will need to be clear in its recommendations as to how best to implement the changes and its reasons for those recommendations.

6.0 The Pensions Board

- 6.1 Together with the Scheme Manager, the 2013 Act also requires a Pension Board whose responsibility is to assist the Scheme Manager in ensuring the Fund's compliance with the Act and associated Regulations. Where there is more than one Scheme Manager, the Act requires a Pension Board for each.
- 6.2 The Pension Board is required to include employer and member representatives in equal numbers. Currently within the Fund there are over 400 employers including local authorities, voluntary bodies and academies, together with over 200,000 members and consideration will need to be given as to how best to reflect this number and their variety in the formation of the Board.
- 6.3 The 2013 Act further requires that those appointed to the Board do not have a conflict of interest requiring each to declare any such conflicts imposing a responsibility on the Scheme Manager to ensure such conflicts do not interfere with the ordinary course of the Fund's business. There will therefore need to be established a process for monitoring interests much the same as Councillors currently have with their local authorities.
- 6.4 Section 5(7) of the Act enables subsequent legislation to provide that the scheme manager, where this has been delegated to a committee, to also be the Pensions Board. While appearing sensible, consideration will need to be given to this proposal when considering the different functions of each, the skills set and knowledge required, together with the potential for conflict in a committee that will in effect, be self-policing. A level of scrutiny and accountability created by having two bodies might be considered more appropriate. It is suggested that the proposal to join the two be more suited to smaller funds that do not have the numbers of representatives that would make two committees viable.

7.0 Pension Board: Information

- 7.1 Section 6 of the 2013 Act requires the Scheme Manager to publish information about the Pensions Board to include who sits on it, who they represent together with the Board's remit and responsibilities.
- 7.2 This requirement is no more onerous than the work already undertaken by the Fund in publishing details about its current Pension Committee, however there may be a higher level of scrutiny due to the public now being aware that this information is required.

8.0 Scheme Advisory Board

- 8.1 Section 7 of the 2013 Act requires the creation of a Scheme Advisory Board whose role will be to advise the Responsible Authority. A policy reform role, the Board is to identify operational issues either locally or nationally and can provide advice to Scheme Managers if requested or not.

8.2 Since the Act came into force that role has been fulfilled by the Shadow Scheme Advisory Board as a precursor to the final Board which will be defined and implemented under subsequent Regulations. The work of the Shadow Board during this time has been to advise on the LGPS Reform.

9.0 Governance in practice

9.1 In its basic form, the proposed structure of the Fund at national level will have the Responsible Authority (the Secretary of State), assisted by the Scheme Advisory Board. At the local level, there will be the Scheme Manager assisted by the Pension Board. Attached at Appendix Two is the proposed structure chart.

9.2 In comparing the proposed structure with the current structure, in all but name the two appear to be no different. However, their substance, function, role, remit and legislative accountability will change and it is this element that the fund needs to consider going forward.

9.3 It is proposed that a Governance Reform Working Party be established to move forward with the changes. It is considered that this will assist in the smooth transition when Council are asked to approve the final proposals. Committee are asked to note that the timetable for all work is subject to the issuance of the Regulations and may require adjusting should there be any delay.

9.4 It is proposed that the Working Party meet at least once a month with the ability to call it sooner should the position change or draft regulations be approved in their final form.

9.5 The remit of the Working Party will be to review the legislation, consider proposals for the future structure, consult with members and employers of the Fund and to recommend back to the Pensions Committee its proposals for the future structure.

9.6 In considering options for the structure, consultation with the Fund's current members and employers will be key and it is proposed that any final recommendation from the Working Party be circulated for consultation and approval to these groups before being presented back to Committee for approval.

9.7 Below is a suggested timeline for how the fund proposes to implement the changes (subject to Government issuing the Regulations as anticipated). As the Fund sits within Wolverhampton City Council, its Administering Authority, ('WCC') the Fund is required to consult with them on any changes to its governance structure. There will also be consequential action such as constitutional changes and training.

9.8 A further briefing note will be presented to the Fund's September committee updating any changes or delays to the proposed timeline.

9.9 Timeline

- Draft Regulations to be issued in June
- Followed by consultation with the Working Party and employers throughout July/August
- Once all responses have been received an update on the outcomes and a proposed structure will be presented to the September committee with a copy to WCC.
- Throughout October – November we will circulate the final proposals, arrange training/seminar sessions and progress the changes with WCC's Full Council as part of their constitution review in December
- January – March the new Governance structure will be implemented.

10.0 Financial implications

- 10.1 It is acknowledged that the reform required under the 2013 Act will create a significant pull on the resources of the Fund in administering not only the changes, but the consultation, feedback and training required by these changes together with the amendment to the Fund's literature, website and information mediums.
- 10.2 The Fund already updates its literature and policies on an annual basis therefore amendments required to these as a result of the changes can be incorporated into the Fund's general work.
- 10.3 The cost of this work is, in the current term, to be met from the Fund's own resources and it is not proposed at this time to increase the workforce of the Fund but for it to be absorbed into the available resources.

11.0 Legal implications

- 11.1 The changes outlined in the report are as a result of legislative reform and are not to be considered optional.
- 11.2 Failure by the Fund to implement the changes will result in a failure to adhere to its legislative duty and may result in judicial review or challenge from external parties. There is also the possibility of Government intervention which may impose its own structure on the Fund.

12.0 Equalities implications

- 12.1 At this stage the detail contained in this report is for information purposes to assist in the understanding of the proposals likely to come in due course. Currently no decision has been taken to change the structure of the Fund.
- 12.2 In considering recommendations that come about as a result of consultation and legislative analysis, the Committee will consider any Equalities issues as part of its final decision at that time as it is required to do under its delegated power.

13.0 Environmental implications

13.1 None identified

14.0 Human resources implications

14.1 The proposals may create a pull on staff within the Fund who will be required to assist with the administration of the changes. It is proposed that this be absorbed into the current duties and it is not proposed, at this time, to consider a review of the staff or their roles.

15.0 Corporate landlord implications

15.1 None identified.

16.0 Schedule of background papers

16.1 Public Services Pensions Act 2013

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

16.2 Consultation paper and responses

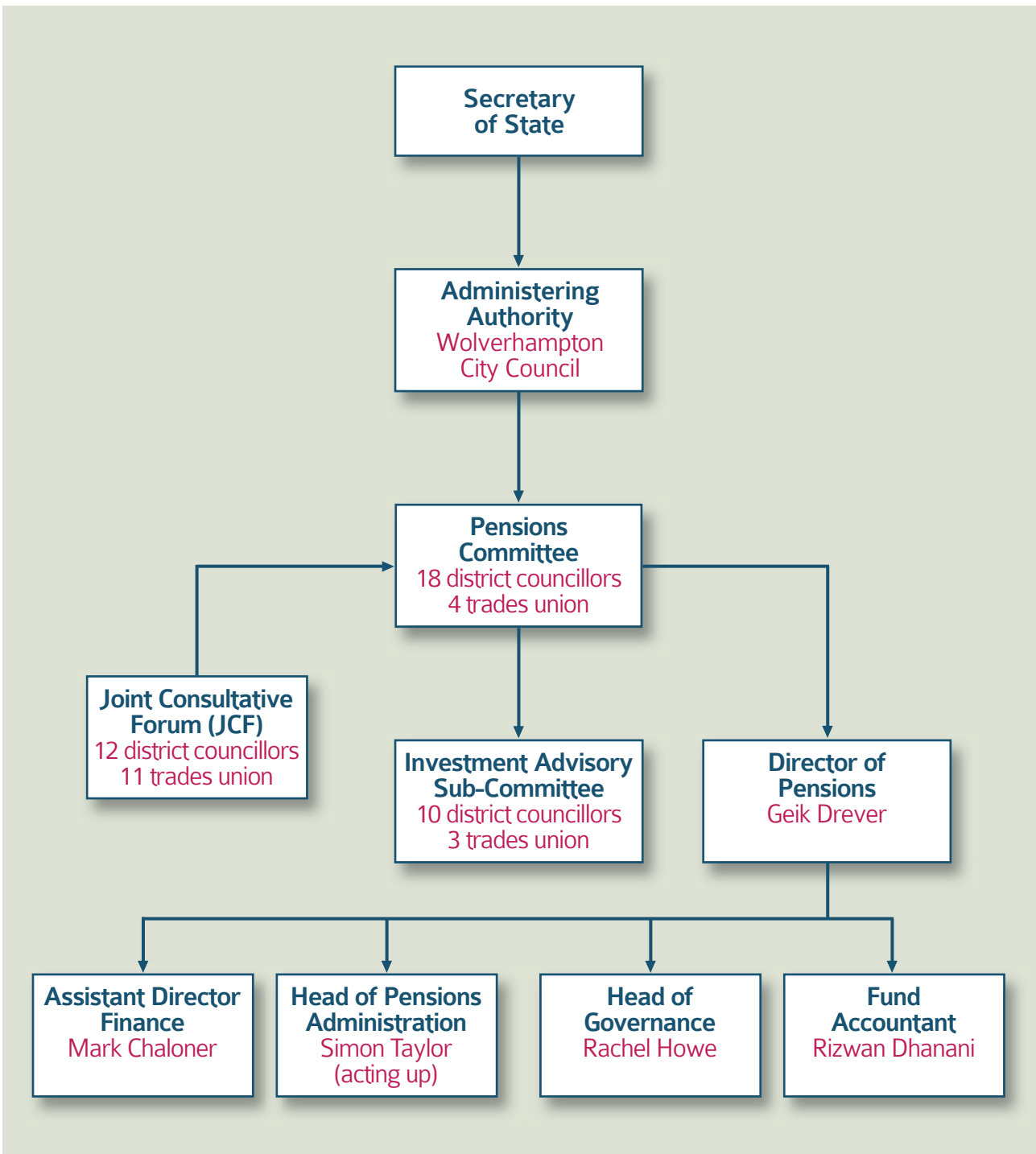
<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-new-governance-arrangements>

16.3 Guidance issued by the Pensions Regulator

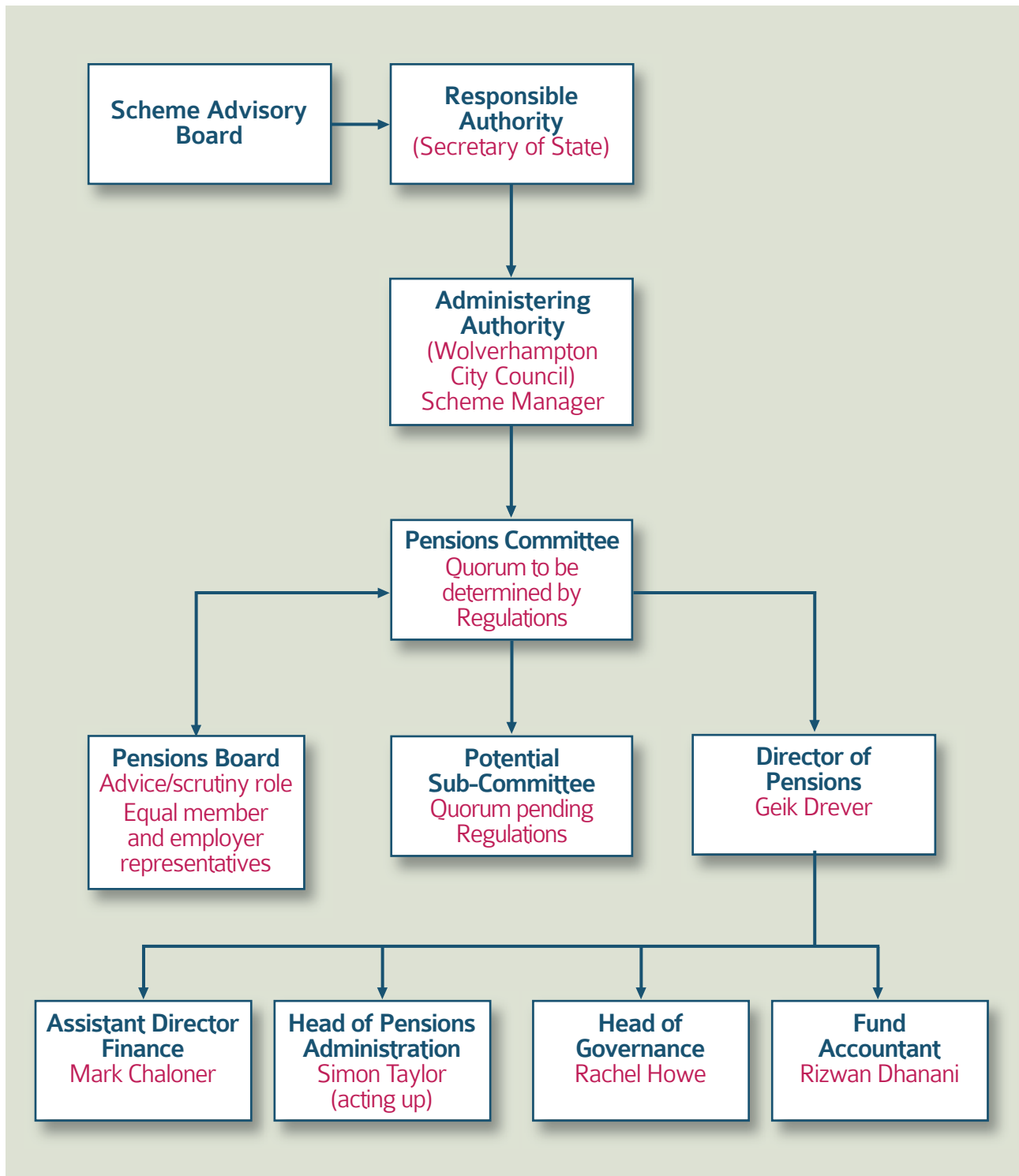
<http://www.thepensionsregulator.gov.uk/employers/detailed-guidance.aspx>

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APPENDIX 1
CURRENT STRUCTURE



APPENDIX 2
PROPOSED STRUCTURE





Pensions Committee

25 June 2014

Report title	Trustee training	
Originating service	Pension Services	
Accountable employee(s)	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendations for noting:

The Committee is asked to note:

1. The training record for the year 2013/14.
2. The provisional training plan for the year 2014/15.

1.0 Purpose

- 1.1 The Pension Fund Trustee Training Policy was approved in November 2012 and as part of the policy it was agreed that training activity undertaken would be recorded and reported to Committee. This report summarises the training activity for the period ending 31 March 2014.

2.0 Background

- 2.1 The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator, and accordingly, the increased emphasis on Trustee training, knowledge and understanding. By implementing and participating in the Trustee Training Policy, the Fund and its Trustees will be well placed to make better informed decisions and consequently will be able to comply with the increased requirements of the Regulator and the overarching governance requirements of the new scheme.
- 2.2 Arrangements for regular training are in place with training delivered through a number of means including external seminars and events, training delivered at Committee meetings, other briefings and research material.
- 2.3 Training activity undertaken is recorded on a training database and quarterly training returns are sent out to all trustees asking them to record additional activity such as online training or reading.
- 2.4 The training policy requires all members and Joint Consultative Forum members to undertake 3 days (21 hours) training per annum.

3.0 Training activity 2013/14

- 3.1 In the period 2013/14, training included

- Induction training.
- Presentations to committee.
- Risk workshop.
- Investment training including asset classes, hedge funds and insurance linked investments, agriculture sub-asset class, emerging markets and commodities and private equities.
- 1:1 training (as requested) on specific topics including asset classes and understanding the statement of accounts.
- External conference (LAPFF)
- Employer Annual General meeting covering the Actuarial Valuation, LGPS update, etc
- Local Government Pension Scheme 2014 update, scheme changes and consultations.

- 3.2 Trustees were also provided with information on relevant web sites for background reading and encouraged to register and undertake training using the Pension Regulator Trustee Toolkit to gain the required trustee knowledge and understanding.
- 3.3 Since the last trustee training monitoring report submitted to committee in January 2014, the following presentations have been made to Investment Advisory Sub-Committee;

Date	Meeting	Firm & Speaker	Presentation details
11 December 2013	IASC	Foreign & Colonial represented by Jeff Chowdhry and Kristy Barr	Emerging market equities
26 March 2014	IASC	HSBC represented by Adrian Bayley	An overview of global custody

3.4 A summary of training activity undertaken to 31 March 2014 is included at appendix A. The summary shows a breakdown of training by member and includes additional development through reading and the use of on- line facilities.

3.5 A total of 302.50 hours training were undertaken in 2013/14 with 8 members/Forum members exceeding or near the 3 days (21 hours) requirement. A number of members did not undertake any training at all.

4.0 Training plan 2014/15

4.1 To assist Trustees organise their calendar, the Fund has proposed a training timetable for the forthcoming year attached as appendix B. Trustees are asked to provisionally book these dates and revert back to the Fund should there be any dates during these periods that are inconvenient.

4.2 Although Trustees are not required to hold any specific qualification, the law requires that trustees have the relevant knowledge and understanding to perform their role within six months of appointment and to develop that knowledge continually throughout their term of appointment.

4.3 Upon nomination, new trustees are invited to attend an in-house induction training session. This provides an understanding of roles and responsibilities in order to allow informed participation in decision making or scrutiny of complex pension issues. This is scheduled to take place on 29 July 2014.

4.4 The training plan also incorporates induction and training for Pension Boards which will be in place in April 2015.

5.0 Financial implications

5.1 The costs associated with Member and Forum members training were incorporated into the budget agreed for the year.

6.0 Legal implications

6.1 The report contains no direct legal implications.

7.0 Equalities implications

7.1 This report has no equal opportunities implications.

8.0 Environmental implications

8.1 The report contains no direct environmental implications.

9.0 Human resources implications

9.1 The report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 Trustee training policy approved in November 2012.

**Summary of recorded trustee training by member
1 April 2013 to 31 March 2014**

Trustee Members	Structured Training	Conference / Seminar	Presentation to Committee	Reading/ Additional Development	Total Training Hours
Councillor Alan W Martin	3.00	3.00	1.75	0.00	7.75
Councillor Andrew Johnson	6.00	0.00	0.00	0.00	6.00
Councillor Damian Gannon	7.00	0.00	1.25	5.00	13.25
Councillor John Reynolds	0.00	0.00	1.00	0.00	1.00
Councillor Lorna McGregor	6.00	1.50	0.50	0.00	8.00
Councillor Mark Evans	0.00	0.00	0.50	0.00	0.50
Councillor Mike Heap	5.00	12.00	2.75	0.00	19.75
Councillor Muhammad Afzal	1.00	0.00	0.50	0.00	1.50
Councillor Peter Bilson	6.00	12.00	1.50	0.00	19.50
Councillor Rachel Harris	11.5	6.00	2.75	4.50	24.75
Councillor Sandra Samuels	4.00	0.00	0.50	0.00	4.50
Councillor Steve Eling	0.00	0.00	0.00	0.00	0.00
Councillor Steve Evans	0.00	0.00	0.50	0.00	0.50
Councillor Tersaim Singh	6.00	9.00	0.50	0.00	15.50
Councillor TH Turner	9.00	13.00	2.75	0.00	24.75
Councillor Vic Silvester	10.50	10.00	2.25	0.00	22.75
Councillor Zahid Ali	0.00	0.00	0.50	0.00	0.50
Councillor Zahid Shah	1.50	0.50	1.50	0.00	3.50
<u>Substitute Members</u>					
Councillor Safeena Arshad	0.00	0.00	0.00	0.00	0.00
Councillor G M Allport	0.00	0.00	0.00	0.00	0.00
Councillor K Chambers	0.00	0.00	0.00	0.00	0.00
Councillor Penny Holbrook	0.00	0.00	0.00	0.00	0.00
Councillor Robert Pocock	0.00	0.00	0.00	0.00	0.00
Councillor Sucha Bains	0.00	0.00	0.00	0.00	0.00
<u>Observer/JCF Members</u>					
Councillor Paul Sweet	0.00	0.00	0.00	0.00	0.00
Martin Clift	7.50	9.00	1.50	10.00	28.00
Ian Smith	6.00	9.00	2.25	4.50	21.75
Malcolm Cantello	10.00	9.00	1.75	26.00	46.75
Mr A Phillips	2.00	0.00	0.00	12.50	14.50
Mr A Wilkins	2.00	3.00	0.50	8.00	13.50
Mr D Harrison	0.00	0.00	0.00	0.00	0.00
Mr S Parker	0.00	0.00	0.00	0.00	0.00
Wendy Bond	4.00	0.00	0.00	0.00	4.00
Total	108.0	97.00	27.00	70.50	302.50

Trustee training structured program 2014/2015

1. Structured training days

Date	Event and Location	Topic
29 July 2014 (1 day)	Induction training Wolverhampton	Induction to role for new Trustees and a refresh for existing Trustees
Week commencing 27 October 2014 (2 days)	Edinburgh	<ol style="list-style-type: none"> 1. LGPS reform 2. Investments <ul style="list-style-type: none"> • alternatives portfolio • setting of benchmarks • investment strategies 3. Governance reform
6 November 2014 (1/2 day)	Training seminar Wolverhampton	Understanding finance and pensions accounting
17 February 2015 (1 day)	Training seminar Wolverhampton	Implementing Governance Reform

2. Training sessions on committee days

There will be one hour training sessions on committee days which will include both investment and topical updates. The first of these is at this committee on 25 June on LGPS reform.

3. Seminars/conferences/on-line facilities/ reading

In addition to the above, members will be advised of any relevant seminars/conferences (eg LAPFF). There are also online toolkits (The Pension Regulator Trustee toolkit) and personal reading that will count towards training.



Pensions Committee

25 June 2014

Report title	Trustee update report	
Originating service	Pension Services	
Accountable employee(s)	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Note the report
2. Note the changes due to be implemented over the coming year

1.0 Purpose

- 1.1 To provide an update for existing and all new Trustees to the Pensions Committee.
- 1.2 It provides a brief outline of the West Midlands Pension Fund ('The Fund'), the management arrangements and the special role of Trustees in respect of the discharge of the functions associated with the relevant pension regulations and legislation.
- 1.3 The report details information for all new Trustees to the Pensions Committee and provides an update to existing Trustees on the proposals for governance reform and the clarification of training requirements.
- 1.4 For clarity within the report those appointed to or who sit on the Committee are referred to as 'Trustees'. Those in receipt of a pension are referred to as 'Members'.

2.0 Background

- 2.1 Following the 1974 Local Government reorganisation, all Council employees in the region (excluding Teachers, Police and Fire Officers) became members of the West Midlands Superannuation Fund with the former County Council being the administering authority.
- 2.2 The 1986 reorganisation created Wolverhampton City Council ('The Council') who in turn became the administering authority for the Fund.
- 2.3 The management of the Fund is divided between distinct functions which are Investment Management, Pensions Administration, Governance and Fund Accounting. These areas of responsibility are delegated by the Pensions Committee to the Director of Pensions, who in turn delegates to her officers.
- 2.4 The total membership of the Fund is 270,598 made up of:

Contributing (active) members:	99,696
Deferred members:	90,082
Members in receipt of a pension (pensioner & beneficiary pensioner):	80,820
Number of scheme employers:	428

- 2.5 The Fund has a dedicated website www.wmpfonline.com which provides more detailed information. Trustees are encouraged to identify any additional information that would be useful to them which can then be added to the website.

3.0 Investment Management

- 3.1 The approach to investment of the Fund's resources is guided by annual investment strategy reviews.

3.2 The Fund has set the following objectives;

- a) An investment strategy that aims to determine the balance of assets having regard to the Fund's liability structure.
- b) The need for stable employer pension costs which is of major importance for the employing bodies because of the impact on their budgets and forward plans.
- c) The aim to match or exceed the Fund's target return, investment returns of comparable funds and the markets in which the Fund invests over the medium to long term.
- d) The need to manage risk through diversification, detailed manager selection and monitoring and comprehensive monitoring of operational risks.
- e) The best practice principles set out in relevant codes of practice are accepted as the investment standard to achieve.

3.3 The investment strategy is expressed in the medium-term asset allocation control benchmark. An asset allocation benchmark is the underlying medium to long term strategic allocation of the assets of a Fund which aims to position the Fund to have distribution of assets that over time is most likely to achieve its objectives. Research has shown that asset allocation is the most significant factor in determining investment returns.

3.4 The triennial actuarial valuation, undertaken by the Fund's actuary, is important in setting the framework for determining the benchmark. It facilitates the balances of various risks associated with the main asset classes against the need to match the Fund's projected liabilities over the medium to long term.

3.5 The Fund's investment strategy is to be reviewed in parallel with the 2013 actuarial valuation.

3.6 In January 2012, Pensions Committee appointed Hymans Robertson as advisors for the Strategic Investment Allocation Benchmark, which aims to conduct an annual review of Investment Strategy. The last review was carried out in 2013. The Fund's position is clearly stated in the current investment strategy, Statement of Investment Principles (SIP) Compliance with the Myners Principles and Socially Responsible Investment Statement (SRI), which are available on the website or from officers. They contain useful information concerning the management of investments and follow recognised best practice.

4.0 Pension Administration

4.1 Benefit administration work is undertaken by the Pensions Administration function and includes:-

- Payment of pensions and the remittance of voluntary deductions to such organisations as the BHSF and Patients Aid.
- Calculation and notification of retirement benefits.
- Provision of information to new scheme joiners, rejoiners, deferred members, retirement options for new pensioners, estimates of future benefits, information for divorce purposes and details regarding increasing the annual pension.
- Calculation, notification and payment of a member's transfer value out of the Fund.
- Notification of service credit and updating a member's record following receipt of a transfer payment into the Fund.
- Calculation and notification of benefits to early leavers e.g. deferred benefits and refund details.
- Notification, calculation and payments of benefits on the death of a contributing member, deferred member and pensioner.
- Issuing Annual Benefit statements to active members, deferred members, and pension credit members.
- Customer Service help for all Scheme members and employers.
- Technical support to employers including coaching sessions.
- Admitting new employers into the scheme, e.g. academies and out-sourced bodies.
- Maintaining and updating of all members computerised records (e.g. change in hours or personal details).
- Data validation of scheme member records and employer information.
- Resolving complaints through the Internal Disputes procedure.

4.2 In March 2013 the Fund officially launched its self-service web portal platform after a successful trial in 2012 with the West Midlands Police Authority.

4.3 The service, which is the central part of the Fund's electronic communications strategy, allows Members of the scheme to view their individual pension records and complete certain actions which they would have previously had to request directly from Fund staff, including retirement estimates and changes of address.

4.4 To date more than 13,700 Members have registered for secure access to this service. This is expected to increase substantially throughout summer 2014 as Members are informed that the Fund will only now issue yearly benefit statements electronically unless a written election is received.

4.5 The web portal service is also available to Fund employers with almost a quarter of the Fund's employers registered to use this service.

4.6 The Fund's web portal has been recognised in industry awards in 2013 and 2014 by being shortlisted for both the Pensions Age Awards (Innovation Award of the Year) and the Professional Pensions Pension Scheme of the Year Awards (Best DB Scheme Innovation).

5.0 Finance and Audit Requirements

- 5.1 The Fund's management arrangements and activities are subject to external audit procedures and due to the specialist nature of these requirements, the Fund sources the expertise of external auditors who have knowledge and experience of pension matters. The auditors produce a report for the Fund. To date we have received clean audit reports.
- 5.2 The Fund is supported by WCC's internal audit team and has an Internal Compliance and Risk team as part of the Assurance Framework.
- 5.3 The Finance Team provide financial accounting and management of the Fund and is supported by WCC's Section 151 Officer.

6.0 Governance of the Fund

- 6.1 The Fund, in compliance with its statutory duty, has issued a Compliance Monitoring Programme and Governance Statement which aims to ensure our processes are compliant with best practice and statutory requirements. This also provides an added assurance to Trustees who have responsibility for the Fund's activities. Trustees are encouraged to read the document and adhere to the principles contained within it.
- 6.2 The latest version of the statement is available on the Fund's website and will be reviewed in line with legislative changes and reform requirements.

7.0 Structure of the Fund

- 7.1 Under the Council's constitution, the responsibility for administering the Fund is delegated to the Pensions Committee which has representatives from the seven District Councils as the largest employers and four Trade Union representatives nominated from the Joint Consultative Forum of Trade Union representatives for the West Midlands region. A copy of the Council's constitution is available on its website.
- 7.2 The changes in responsibility for the delivery of Council services has seen an increase in the number of private sector organisations, voluntary sector organisations and more recently Academies, becoming members of the Fund.
- 7.3 The Committee manages the Fund in accordance with the regulations and best practice determining the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

7.4 As a Trustee of the Committee your duty will be to:

- Discharge the statutory functions of the Council for the application of the Local Government Pension Scheme in the West Midlands, including equality issues.
- Put in place and monitor the arrangements for the administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits.
- Determine and review the provision of resources made available to the Fund in the execution of their duties.

7.5 In performing these duties you are required:

- To monitor compliance with legislation and best practice.
- To determine admission policy and agreements.
- To monitor pension administration arrangements.
- To determine investment policy based upon a medium-term benchmark and quarterly reviews agreeing a short term position relative to the benchmark.
- To monitor policy.
- To appoint committee advisors.
- To determine detailed management budgets.

7.6 As well as the Pensions Committee, the Fund also consists of the Investment Advisory Sub-Committee whose role is to advise on the establishment of policies in relation to investment management, to oversee and monitor investment activity and the performance of the Fund.

7.7 The Investment Advisory Sub Committee meet at least four times a year focusing on the following key duties:

- To monitor and review investment management functions.
- To review strategic investment opportunities.
- To monitor and review portfolio structures.
- To monitor implementation of investment policy.
- To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisors to the Fund.
- To monitor investment activity and the performance of the Fund.

7.8 These two Committees are supported by Officers, led by the Director of Pensions who has delegated responsibility from the Council for the administration of the Fund. The Director is supported by the Senior Management Team consisting of the Assistant Director, Fund Accountant, Head of Pensions Administration and the Head of Governance. Further support is provided by the statutory officers of the Council, being the Chief Executive, Chief Legal Officer and Section 151 Officer.

8.0 Your role as Trustee

8.1 The Secretary of State has previously indicated that administering authorities should pay due regard to the principle contained in *Roberts v Hopwood* in exercising their duties. In that case, Lord Atkinson said:-

“A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body, owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of others”.

8.2 When considering advice and determining investment policy, you are acting as a Trustee and as such need to understand the special obligations placed upon you. These responsibilities are in addition to those you carry out as an elected Councillor of your Local Authority.

8.3 Your duty as Trustee is to manage the Fund in accordance with the Regulations and to do so prudently and impartially on behalf of all the beneficiaries. This sometimes means that you may have to make decisions that in other political circumstances you may choose not to make. The overriding consideration for you as a Trustee has to be for the benefit of the Fund, its contributors and its beneficiaries.

8.4 “The standard required of a Trustee in exercising his powers of investment is that he must take care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide”.

“That duty includes the duty to seek advice on matters which the Trustees do not understand, such as the making of investments, and on receiving that advice to act with the same degree of prudence. This requirement is not discharged merely by showing that the Trustee has acted in good faith and with sincerity. Honesty and sincerity are not the same as prudence and reasonableness. Accordingly, although a Trustee who takes advice on investments is not bound to accept and act upon the advice, unless in addition to being sincere he/she is acting as an ordinary prudent person would act”. (Cowan & Scargill 1985).

8.5 The advice of the Fund’s advisers is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibility that go with them. You are not expected to be qualified to give investment advice or to initiate investment policy; however, you must be aware of what is proposed by the Fund’s advisers and be sure that it is relevant to the needs of the Fund and within your powers to do.

8.6 In practice, Trustees typically discharge their duty by ensuring that they have a systematic and clear way of agreeing their investment policy with managers and advisers. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings with and regular written reports from professional advisers whose skills and judgements can be relied upon.

8.7 In seeking this advice the Fund ensures that those they hire are experts in their field.

8.8 Currently the fund source advice from the following persons:

- Council Officers
- CBRE, the independent advisor on property
- Mercer Limited (the Fund's Actuary)
- Hymans Robertson (the Fund's investment consultants)
- John Fender (independent advisor on property)

9.0 Trade Union Representatives and Provision of Information to Third Parties

9.1 The Fund invites relevant trade unions to send local representatives to a Joint Consultation Forum which meets at least three times per year to consider the activities of the Fund. They can also elect four representatives one of which represents Retired Members to the Pensions Committee and three to the Investment Sub-Committee. Although these representatives do not have voting rights they are treated as equal members of the committees and they have access to all committee papers, officers, meetings and training as if they were Council members and have an opportunity to contribute to the decision making process.

10.0 Personal Interests

10.1 Currently Trustees are not required, in the ordinary course of their work on the Pensions Committee, to declare their personal investments, other than those declared in their role as elected councillors, as they are not normally involved in specific direct investment management or in specific stock selection.

10.2 This is due to change under the 2014 Governance Reform and Trustees will be required to declare any matter, financial or otherwise, which may give rise to a conflict.

10.3 It should be noted that the investment advice and any related information given to the Committee is confidential and should not be disclosed under any circumstances.

11.0 2014 Governance Reform

11.1 The Public Service Pensions Act 2013 ('The Act') outlined new governance structures for Pension Funds to take effect from 1 April 2015. The Act proposed a Scheme Manager (The Administering Authority) to be advised by a Pensions Board consisting of proportionate numbers of member and employer representatives. The actual detail of how this is to be implemented is to be defined in Regulations which, at the time of writing, we are anticipating to be issued in June.

11.2 In the lead up to the issuance of the Regulations, there has been consultation with Fund Authorities Nationwide about what the Regulations should contain and from this we can speculate what the Regulations might contain and how they may be implemented.

11.3 What is certain is that it will require a governance review of the Fund.

12.0 Financial implications

12.1 There are no financial implications.

13.0 Legal implications

13.1 There are no legal implications.

14.0 Equalities implications

14.1 None identified.

15.0 Environmental implications

15.1 None identified.

16.0 Human resources implications

16.1 None identified in excess of current need.

17.0 Corporate landlord implications

17.1 None identified.

18.0 Schedule of background papers

18.1 There were no preceding background papers.

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Pensions Committee

25 June 2014

Report title	Update of Fund Strategy and Policy Statements	
Originating service	Pension Services	
Accountable employee(s)	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	Rachel.howe@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the update of the Fund strategies and policy statements.
2. Agree the discontinuance of the Investment Strategy Statement for the reasons set out in the report.

Recommendations for noting;

The Committee is recommended to:

1. Note the contents of this report

1.0 Purpose

- 1.1 To provide an update on the changes and updates required to the Fund's Strategy and Policy Statements detailing reasons for those changes.

2.0 Background

- 2.1 The Fund is required under regulations to produce, publish and keep under review various strategies and policy statements. These are designed to establish best practice and accountability in the management of the Fund's assets.

3.0 Statement of Investment Principles (SIP)

- 3.1 Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires a fund to prepare, maintain and publish a written statement of investment principles, governing the policy on the investment of pension fund monies.

- 3.2 The statement must cover:

- the type of investments which are to be held;
- the balance between different types of investment;
- risk;
- the expected return on investments;
- the realisation of investments;
- the extent to which social, environmental and ethical considerations are taken into account;
- the exercise of rights (including voting rights) attached to investments; and
- stock lending

- 3.3 The SIP has been updated to reflect the changes agreed by the Investment Advisory Sub-Committee in March 2014 and is attached as Appendix 1.

4.0 Investment Strategy Statement

- 4.1 It is proposed that this statement is discontinued. It is not mandatory and no longer provides up to date information that cannot be obtained from other publicly available sources (SIP and annual reports).

5.0 Compliance with Myner's Principles

- 5.1 The Fund is required to report on its compliance with the six principles (the Myner's principles) those being
- Effective decision making – right people making the right decisions
 - Clear objectives – relevant to the scheme and communicated to managers
 - Risk and Liabilities – awareness and understanding of the risks and tolerance to them
 - Performance assessment – formal processes for managers and trustees
 - Responsible ownership – established policy to discharge responsibilities as an investor including monitoring voting and if necessary intervention
 - Transparency and reporting – keep the members and other stakeholders informed
- 5.2 The Fund's statement complies with the six principles.
- 5.3 Other than a change in the date of the policy (2013 to 2014), the policy remains the same.

6.0 Funding Strategy Statement (FSS)

- 6.1 This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.
- 6.2 The FSS is reviewed in detail every three years as part of the triennial valuation and is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.
- 6.3 The Department for Communities and Local Government stated that the purpose of the FSS is
- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
 - to support the regulatory requirement to maintain as near as possible constant employer contribution rates; and
 - to take a prudent long term view of funding those liabilities.
- 6.4 The FSS includes:
- the aims and purpose of the FSS in policy terms;
 - the responsibilities of the key parties;
 - the solvency issues and target funding levels;
 - links to investment policy set out in the statement of investment principles; and
 - key risks and controls.

- 6.5 The strategy should state the measures that will be taken when a valuation reveals that the Fund is in surplus or deficit and how employer contribution rates will be adjusted to restore the solvency position over a period of years (the recovery period). The recovery period, applicable for each participating employer, will be set by the Administering Authority in consultation with the Fund actuary and the employers, with a view to balancing the various funding requirements against the risks involved.
- 6.6 To supplement the FSS the Fund has drafted a Policy on Termination Funding for Employers. This document details the West Midlands Pension Fund's (the Fund) policy on the methodology for assessment of ongoing contribution requirements and termination payments on the cessation of an employer's participation in the Fund. This document also covers the Fund's policy on admissions into the Fund and sets out the considerations for current and former admission bodies.
- 6.7 The FSS was revised by Committee in March 2014 as part of the 2013 Actuarial Valuation exercise.

7.0 Social Responsibility Investment Statement (SRI)

- 7.1 Other than changes in the date (2013 to 2014) and in the SRI investments mentioned in the Statement (specifically the holding in an alternative energy fund, which has been sold) the policy remains the same.

8.0 Governance Compliance Statement

- 8.1 The statement sets out whether a fund delegates any part of their pension fund to a committee, sub-committee or officer, and must record the frequency of meetings, terms of reference and employee representation. If a fund delegates, the statement must record:
- the frequency of committee or sub-committee meetings;
 - the delegation's terms of reference, structure and operational procedures; and
 - whether the committee or sub-committee includes representatives of employing authorities or members, and if so, whether these representatives have voting rights.
- 8.2 The governance compliance statement also records the extent to which the delegation (or absence of a delegation) complies with the Secretary of State's guidance and, to the extent it does not comply, the reasons for not complying.
- 8.3 The Governance Compliance statement is not being reviewed at this time due to the significant changes being brought in under the Public Service Pensions Act 2013. We are currently awaiting Regulations which will detail the requirements for the Fund and its governance. The Statement will be reviewed as part of those changes.

9.0 Compliance with the Stewardship Code

9.1 This statement links the Fund's approach as set out in its relevant statements to the FRC Stewardship recommended practices. The FRC wants those involved in equity investing to formally commit themselves to acting as responsible asset owners and state this by publishing a compliance statement and recording the fact for publication on the FRC website. The Fund has met this best practice requirement.

9.2 Other than a change in the date of the policy (2013 – 2014) the policy remains the same.

10.0 Communications Policy Statement

10.1 The Fund has identified six distinct groups with whom it needs to communicate:

- Pension Committee members
- Scheme members
- Prospective Scheme members
- Scheme employers
- Fund staff
- Other bodies

10.2 This document outlines the Fund's policy concerning communications with these groups

10.3 This policy has been updated and refreshed to take into account the Fund's updated web portal service and the electronic delivery of benefit statements. A copy of the Policy is attached as Appendix 2.

11.0 Pensions Administration Strategy

11.1 Other than a change in the date of the policy (2013 – 2014) the policy remains the same.

12.0 Policies

12.1 Policies refreshed to reflect 2014 updates are available in electronic form on the Fund's web portal. Those with changes other than those constituting a refresh are attached as appendices.

13.0 Financial implications

13.1 There are no financial implications.

14.0 Legal implications

14.1 The Fund is meeting its legal obligations in the annual review of its policies.

15.0 Equalities implications

15.1 As the review of the policies is an annual task and simply updates/refreshes existing policies, it is not considered that there are any equalities implications other than those already considered at the original drafting of the policy

16.0 Environmental implications

16.1 None identified

17.0 Human resources implications

17.1 None identified

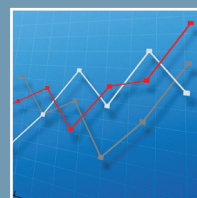
18.0 Corporate landlord implications

18.1 None identified

19.0 Schedule of background papers

19.1 The Fund statements are quite bulky when published in paper format and therefore, only those with significant amendments are attached to this report. They are available on the Fund's website www.wmpfonline.com.

19.2 For legislative references please see www.legislation.gov.uk



Statement of Investment Principles 2014

July 2014

Statement of Investment Principles 2014

1. Introduction

1.1 The West Midlands Pension Fund has drawn up this Statement of Investment Principles ('the SIP') to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This statement is available to anyone with an interest in the Fund and the public generally. The Fund has consulted with such persons as it considers appropriate including obtaining advice from its consultants in preparing this statement.

1.2 Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in section 2 on page 3. The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions. The committees meet at least four times a year. A Joint Consultative Panel made up of local trade union members meets three times a year.

1.3 The roles of the members and committee are:

Pensions Committee Member Principal Accountabilities

- 1** To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
- 2** To put in place and monitor the arrangements for the administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits.
- 3** To determine and review the provision of resources made available for the discharge of the function of administering authority.

Key Duties

a) Pensions Committee

- 1) Monitor compliance with legislation and best practice.
- 2) Determine admission policy and agreements.
- 3) Monitor pension administration arrangements.
- 4) Determine investment policy based upon a medium-term benchmark and quarterly reviews outlining a short-term position.
- 5) Monitor policy.
- 6) Appoint committee advisers.
- 7) Determine detailed management budgets.

b) Investment Advisory Sub-Committee

- 1) Monitor investment management arrangements.
- 2) Review strategic investment opportunities.
- 3) Monitor and review portfolio structures.
- 4) Monitor implementation of investment policy.
- 5) Advise on the establishing of policies in relation to investment management, including the appointment and approval of terms of reference of independent advisers of the Fund.
- 6) Monitor investment activity and performance of the Fund.
- 7) Oversee the administration of investment management functions of the Fund.

The Council delegation to Pensions Committee is as follows:

- a) To exercise the functions of the Council in relation to the administration of the West Midlands Pension Fund arising by virtue of the Local Government Pension Scheme (Administration) Regulations 2008, and any subsequent related legislation.
- b) To exercise all the general powers and duties of the Council granted to Cabinet and cabinet teams and standing bodies provided that those parts of the Council's Financial Procedure Rules and Contracts Procedure Rules which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.
- c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.
- d) To ensure that consideration is given to the impact which the committee's policies and provision of services have with regard to environmental matters.

The key delegation to the Investment Advisory Sub-Committee is as follows:

- a) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisers to the Fund.
- b) To monitor investment activity and the performance of the Fund.
- c) To oversee the investment management functions of the Fund.

The Director of Pensions oversees the implementation of committee policy and the management of the day-to-day functions that support its implementation.

- 1.4** This SIP has been prepared taking into account the most recent actuarial valuation and the Funding Strategy Statement (FSS). The SIP is updated as part of any significant changes on an ongoing basis, for example, appointment of new managers, or new major investment areas or benchmark changes.

1.5 Related Fund policies and statements are:

- Funding Strategy Statement
- Statement of Investment Principles
- Socially Responsible Investment Statement
- Compliance with Myners
- Compliance with the UK Stewardship Code
- Governance Compliance Statement

2. Investment Objectives and Risk

2.1 Objectives

- i) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.
- ii) Emphasise markets that over time are likely to give better returns.
- iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.
- iv) Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.
- v) Identify innovative return enhancing investment opportunities.

2.2 Risk

- i) The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

- ii) **Funding Risks**

- a) The risk of a deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark reflecting optimum correlation between asset classes and diversification. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

- b) The risk of changing demographics as longevity and other demographic factors improve, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

- c) Systemic risk as the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund seeks to mitigate systemic risk through a diversified portfolio with a split between active management (alpha) and market returns (beta). Within the allocation to alpha there is a diverse range of specialist managers with varying targets of risk and return. In addition, the alpha budget is designed to enhance returns from identifying market inefficiencies. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

iii) Asset Risks

- a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- c) Currency risk that the currency of the Fund's assets underperforms relative to sterling (ie, the currency of the liabilities).
- d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

The Fund manages asset risk as follows:

- It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines.
- By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- By investing across a range of assets, including quoted equities and bonds, the Fund has recognised the need for some access to liquidity in the short term.

- Robust financial planning and clear operating procedures for all significant activities.
- The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, it is comfortable taking this risk.
- In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

iv) Operational Risk

- a) Transition risk of incurring unexpected costs in relation to the transition of assets among managers.

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk.

- b) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded. These risks are managed by:

- The use of a global custodian for custody of assets.
- The use of formal contractual arrangements for all investments.
- Maintaining independent investment accounting records.

- c) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- Operation of robust internal compliance arrangements.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund. Greater detail can be found in the Investment Strategy Statement

3. Investment Strategy

The Fund sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and its investment objectives. The strategy used to be reviewed at least every three years after each actuarial valuation, and monitored on an ongoing basis to facilitate any necessary changes. The review is now moving to an annual basis which may or may not result in a change in benchmark more frequently.

The majority of the Fund's expected returns (6.0%) comes from its market investments and 0.9% from its active budget. Although the Fund only has a combined 33% target allocation to 'alternative' asset classes and private equity, around 50% of the target active returns are expected to be derived from these. These allocations are made in order to better manage and improve the risk return on investments, and have led to a medium-term target of 23% alternatives, 19% fixed-interest and 58% equities (includes a 10% allocation to private equity).

The Fund's investment in alternative asset classes seeks to increase the overall expected returns while reducing the overall level of expected risk due to the effect of diversification. Volatility also forms part of the overall equation, acknowledging there is market risk plus active risk (associated with any active management). The key is to find investments where the extra return more than offsets any increase in volatility.

The strategy has, over recent years, set a trend of further diversifying the Fund's overall risk away from an overdependence on the equity risk premium. As part of this trend, alternative investments have included investments in 'absolute return strategies'.

It also seeks to position the Fund's equity exposure to reflect global GDP, in addition to market capitalisation.

4. Day-to-Day Management of the Assets

4.1 Investment Portfolios

The investment strategy is implemented through the development of investment portfolios within each asset class detailed in the benchmark. The portfolios will be constructed from funds and products that are accepted by the Investment Advisory Sub-Committee and satisfy the relevant investment management regulations and operational due diligence requirements.

The investment opportunities will be accessed through the following range of methods.

A significant amount of investment is carried out by the Fund's own Pension Fund Investment Division (PFID) and is designed to manage approximately 45% of the Fund's investments. The majority of quoted equities are managed in-house, either on a passive or active core basis, the latter having relatively low alpha and volatility targets.

Where the appropriate skills are not available internally, some specialist external funds and managers are used. The managers used are listed at Appendix A on page 9.

The management of private equity and some of the other complementary assets involves selecting specialist funds to construct portfolios. UK direct property is also managed through a specialist manager, alongside close in-house involvement. The Fund takes final decisions on all, except minor, property matters. Index-linked bonds are managed externally on a passive basis; all UK corporate bonds are managed externally, predominantly on an active basis. UK gilts are managed externally within a passive mandate.

On occasions the Fund has used futures for protecting its quoted equity allocation while in the process of implementing its benchmark. The Fund will give serious consideration to any structured product or derivative that is considered to be a 'permitted' investment under LGPS regulations and that is considered to be the most efficient use of the Fund's assets within the risk budget.

4.1.2 Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation. The individual portfolios are expected to match or exceed the specific targets set for each portfolio over time. The Investment Strategy Review 2012 indicated the total return target for the Fund is 6.9%, which is split between the returns expected from core/passive investments (the core return of 6.0%) and those from actively-managed investments (0.9%).

4.1.3 Investment Restrictions

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund operates at the limits set by the lower level of control under Regulation 14(2), and within the limits for contributions to partnerships, the upper limit for which was increased to 30% from 1 April 2013. This enables investments in private equity and other assets such as infrastructure and global property.

Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Investment Advisory Sub-Committee. The valuation of specific investments from those acceptable are made using the Fund's due diligence procedures and in accordance with its Investment Compliance Manual.

4.2 Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Equitable Life and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds.

The Fund monitors, from time to time, the suitability and performance of these vehicles. No new business is being placed with Equitable Life.

4.3 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. There is no current policy on realising investments to meet benefit outgoings etc, as the Fund's cashflow is positive. The majority of the Fund's investments may be realised quickly if required. Property and private equity, which together represent around 19% of total assets, may be difficult to realise quickly in certain circumstances.

4.4 Monitoring the Performance of Fund Investments

The performance of the internally managed assets and of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Investment Advisory Sub-Committee meets at least quarterly to review markets, asset classes and funds.

Advisers

The Fund uses a range of advisers in addition to its own specialist officers. These are detailed in Appendix C on page 11.

5. Corporate Governance and Socially Responsible Investment (SRI)

5.1 Fund Responsibilities

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Fund considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards or reasonable expectations set by their peers.

The Fund's approach is part of its overall investment management arrangements and its active governance policy.

In order to fulfil this responsibility, The Fund communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Fund's voting rights are an asset and will be used to further the long-term interests of the Fund beneficiaries. As a general principle, votes will be used to protect shareholder rights, to minimise risk to companies from corporate governance failure, to enhance long-term value and to encourage corporate social responsibility. It is the Fund's policy to vote against a company's report and accounts where there is insufficient disclosure on environmental, employee and community policy. A copy of the Fund's corporate governance policy and a summary of its voting actions can be found on the website at wmpfonline.com

Socially responsible investment is taken as giving consideration to issues that give risk to social concerns – for example, employment practices, human rights, use of natural resources, environmental issues and external business standards. This links to, and covers, the issues around sustainability, that have a rapidly growing significance for companies from a legislative, reputational and practical operational standpoint.

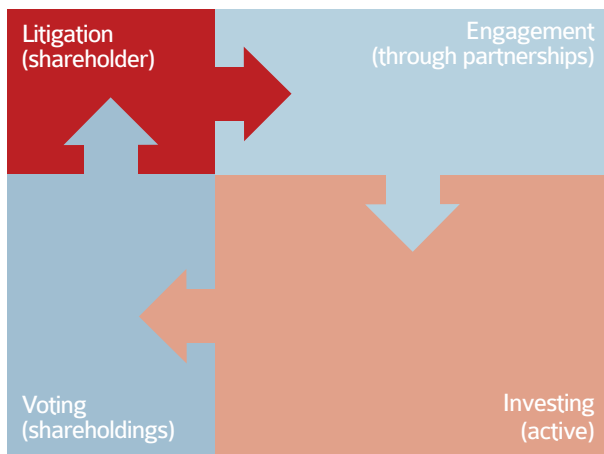
The Fund’s policy statement on SRI and its position relating to the UK Stewardship Code can be found in a separate statement on the website.

Lack of good governance interferes with a company’s ability to function effectively and is a threat to the Fund’s financial interest in that company.

5.2 Approach to SRI

The Fund’s approach to corporate governance and SRI divides into four areas of activity.

ESG Best Practice



a) Voting Globally

The first approach, voting, is certainly not a ‘box-ticking’ exercise, as the Fund regularly votes against resolutions.

The Fund, through a proactive voting policy, in partnership with PIRC, votes its share rights constructively based upon a comprehensive analysis of company voting issues.

The Fund’s voting policy and activity is detailed in its annual report and accounts and on the Fund’s website, where it is reported on a quarterly basis.

b) Engagement Through Partnerships

The Fund’s second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- LAPFF.
- Voting on shareholder resolutions.
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

The Fund continues to actively develop corporate governance partnerships as it believes this will maximise the influence of shareholders, will lead to best practice and will promote high standards on a global basis. Current partners include the Institutional Investors Group on Climate Change.

c) Shareholder Litigation

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with a US law firm and other shareholders, submits class actions globally where possible and where appropriate.

d) Active Investing

The fourth and most challenging activity for the Fund in this particular field is actively seeking SRI investments for a proportion of Fund assets, provided these meet the Fund’s requirements of strong returns combined with best practice in SRI and/or corporate governance.

Such investments include alternative energy, clean energy, urban regeneration and activists’ funds.

5.3 Environmental Concerns

The corporate performance of companies and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Fund will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.

The Fund expects companies to:

- Make a commitment to achieving environmental excellence.
- Institute regular monitoring of their environmental impacts.
- Establish procedures which will lead to incremental improvements in environmental performance.
- Comply with all current environmental and other relevant legislation and to seek to anticipate future legislative changes.
- Make available to shareholders regular and detailed reports of progress made towards attaining improved environmental standards.
- Seek to take all reasonable and practical steps to minimise or eliminate environmental damage.
- Actively and openly engage in discussion on the environmental ethical effects of their business.
- Take environmental matters seriously and produce an environmental policy which is effectively monitored.

6. Compliance with this Statement

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

7. Compliance with Myners

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

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

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

8. Review of this Statement

The Fund will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. This review will occur no less frequently than every three years to coincide with the actuarial valuation.

9. Stocklending

The Fund undertakes stocklending for its quoted equity holdings and is considering it for other asset classes, as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations.

The lending of equities, held in segregated mandates, is through the Fund's custodian with a formal agreement in place and approved collateral to protect the Fund's interests. Regular reviews of the lending programme take place with the custodian. Stocklending may also take place in pooled vehicles held by the Fund.

Appendix A - Portfolio Structure July 2014

The structure summary is as follows:

Equities	
UK	PFID
North America	PFID; Intech
Europe	PFID; Blackrock
Far East	PFID plus specialist funds
Global	MFS Investment Management Blackrock PFID through specialist funds
Emerging markets	PFID AGF Investments Foreign and Colonial Investments Mondrian Investment Partners
Private equity	PFID through specialist funds
Alternative investments	
PFID through a selection of specialist funds	
Fixed interest	
UK gilts	PFID through specialist funds
UK index-linked	PFID through specialist funds
UK corporate bonds	PFID through specialist funds Royal London Asset Management
Cash	PFID
Direct property	CBRE
Indirect property	PFID through specialist funds

PFID - Pension Fund Investment Division (Direct)

Appendix B - Investment Benchmark

	Medium-Term Asset Allocation July 2014		Medium-Term Strategic Ranges
	%	%	%
Quoted equities		48	40-60
UK	10.0		
Europe	6.0		
North America	9.0		
Japan & Far East	6.5		
Emerging markets	8.5		
Global equities	8.0		
Private equity	10.0		
Total equities		58	50-70
Fixed interest		19	15-25
UK index-linked	5.5		
UK gilts	4.0		
UK corporate bonds	5.0		
Emerging market debt	3.5		
Cash	1.0		
Alternative		23	15-25
Direct property	7.0		
Indirect property	2.0		
Infrastructure	4.0		
Absolute return strategies	10.0		
Total non-equities		42	30-50
Total Fund		100	

- Fund's asset allocation to equity markets reflects global GDP by region, market capitalisation and regional wealth, but with a higher weighting to the UK and emerging markets.
- Fund's overall exposure to UK is of the order of 33%
- Regional overseas equities:
50% US and Europe
50% Asia and Emerging Markets
- Fixed interest:
50% stabilising
50% return seeking

Note: Medium-term strategies ranges set deliberately wide and only around specific asset classes.

The risks of diverging from the benchmark are monitored and evaluated through a weekly risk/return model, which is also submitted to the quarterly Pensions Committee.

Appendix C - Advisers April 2014

Hymans Robertson Investment policy, general investment matters.
Mercer Human Resource Consulting Actuarial matters.
CBRE Commercial and industrial property matters, day-to-day management of properties and transactions, involving the sale and purchase of property (excluding agricultural).
John Fender Consultancy Independent property advice
Knight Frank Agricultural property management matters
Knight Frank Independent property valuations
Savills Independent agricultural property valuations.
Entec Planning matters (agricultural holdings).
Lawrence Gould Independent agricultural property advice.
Deloitte Investment management practices and regulations.
PIRC Company governance issues.
HSBC Stocklending.

Appendix D - List of Suitable Investments

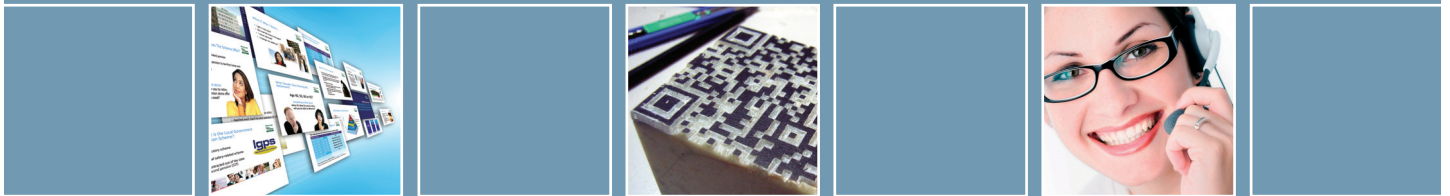
Within the investment management regulations for the LGPS, the following are considered acceptable investments for meeting the Fund's investment strategy.

- Quoted equities
- Private equity
- Contract of insurance (relevant)
- Unlisted securities
- Property
- Cash deposits
- Fixed interest
- Commodities
- Infrastructure
- Derivatives in accordance with the Fund's compliance requirements

Appendix E - List of Acceptable Investment Vehicles

- Direct holdings
- Limited partnerships
- Pooled vehicles
- Structured products (as defined by the LGPS regulations)
- Hedge fund strategies

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Communications Policy Statement 2014

June 2014

Communications Policy Statement 2014

Introduction

Your comments on how the West Midlands Pension Fund communicates – good or bad – with any of our stakeholders are welcome.

If you want to get in touch with us about the way in which we communicate, please contact us using the details found later in this document.

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

This document outlines the Fund's policy concerning communications with the following people and organisations.

The Fund has identified six distinct groups with whom it needs to communicate:

- Pension Committee members
- Scheme members
- Prospective scheme members
- Scheme employers
- Fund staff
- Other bodies

Diversity of Communication

The Fund's communication material is designed within the boundaries of the channel for which it is meant.

Printable publications are made available on the Fund's website at wmpfonline.com, and contain links and information that wouldn't be possible to incorporate into a printed version.

All information is also available in alternative formats (for example, Braille and large print). In cases where one-off personalised information is requested in either Braille or large text format, it can take up to ten working days for it to be prepared.

A truly effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers. Set out in this document are the channels which may be used to meet those communication needs. The Fund aims to use the most appropriate communication medium for the audiences receiving the information. It is recognised that this may involve using more than one method of communication for each group.

Pension Committee Members

Committee members receive directly all meeting papers and full access to all Fund material produced for employers, employees' pensions and third parties. As part of its main website at wmpfonline.com, the Fund provides information which contains the relevant scheme booklets and information.

In accordance with the trustee training policy, knowledge building and training is provided via the Fund's officers, advisors and external experts with regards to investment and administration matters.

The Fund has embraced the CIPFA knowledge and skills framework, and will work to expand elected members' knowledge upon this framework.

The role of the elected member through the Pension Committee is also supplemented by sub-committees, such as the Investment Advisory Sub-Committee, at which specific advice can be provided by officers and external advisors. The seven district councils in membership of the Fund are represented at meetings, as are the trade unions who attend all meetings on an observer basis, but whose views are given equal weighting.

The trade union representatives are generally scheme members in that they are active, deferred or pensioner members. The work of the trade union members is supported by a Joint Consultative Forum of trustees and trade union representatives.

Scheme Members

Internet

The Fund has established an extensive website at wmpfonline.com containing Scheme details and leaflets, etc. There are also links to other organisations relevant to Scheme members, for example, AVC providers, employers' organisations, etc.

Benefits Statements

An annual benefit statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year-end and do not form a pending pension transaction. Benefit statements are sent direct to the home address of deferred members where a current address is known. Active and deferred members are able to register for the Fund's web portal facility, where a copy of individual benefits statements are available to view or print at any time. From April 2015, benefit statements will only be issued in paper form on written request.

All members are encouraged to inform the Fund directly of any change of address. The Fund has a formal policy on dormant records and members are provided with this information at various times.

The Fund also takes reasonable steps to ensure we maintain a current and accurate address database subject to the accepted Royal Mail format – PAF (postal address format).

Scheme Literature

An extensive range of scheme literature is produced by the Fund and is supplied to employing bodies and scheme members directly. Copies of scheme literature form part of the Fund's website at wmpfonline.com

As changes to the scheme are announced and implemented, the literature will be updated accordingly and posted on the Fund's website at wmpfonline.com

Pay Advices

The Fund issues a pay advice to all monthly paid scheme pensioners in April. In the months of May through to March, we will only send a pay advice when there is a variance of £10 in their gross or net payment. For scheme pensioners that are paid quarterly and annually, the Fund will issue a pay advice every time a payment is made (June, September, December and March). Scheme pensioners can also register to use the Fund's web-portal application where the pay advice can be viewed and printed at any time following the payment date.

Scheme pensioners are issued an annual end-of-year certificate (P60) to comply with HMRC guidance which will be provided in March 2013 and will continue on an annual basis accordingly.

The pay advice is used as a multifunctional communication mechanism, messages are included on the reverse each time they are produced. The Fund's website will continue to display updates for pensioners to convey specific messages, for example, pensions increase and HMRC taxation information.

Correspondence

The Fund uses both surface mail and email to receive and send correspondence, all staff have access to send and receive email. The Fund will, where appropriate, use downstream access (DSA) providers to minimise costs for large bulk mailing such as annual benefits statements, but it will research services offered by the DSA providers to ensure the service offered is in accordance with that expected of a mail carrier, and that it will not impact on the end-delivery service to customers where relevant.

Dedicated Telephone Helpline

Members: 0300 111 1665

A dedicated low-call rate telephone customer service centre is provided for scheme members and is widely publicised in scheme literature. A password security system has been implemented which allows scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

Pensions Roadshows

The Fund stages biennial pension roadshows where it visits the civic buildings of the seven district councils. Outside these events, satellite roadshows are held at outlying employer sites, particularly when there may be organisational changes occurring which have pensions implications.

The self-contained vehicle provides an opportunity for officers to go onsite and meet with scheme members while having the full range of communication material present, as well as colleagues from Prudential who are the Fund's AVC partner. This can be done with the minimum of disruption to employers, as the vehicle can be located at workplace locations without the need for employers to find a suitable meeting room.

A concerted effort is currently being made to broaden this onsite work, and employers are being invited to seek assistance with pension matters at the earliest opportunity. In the current climate, this service has provided a good way of dealing with members' enquires face-to-face in order that full support can be given to them and their employees.

Pension Clinics and Surgeries

Officers of the Fund attend employer sites to see members on a one-to-one basis where requested to do so. This can be at the request of an employer where there is significant change to employment terms or at the request of members who feel they are unaware of the benefits of the LGPS.

The emphasis of these events is to reassure members about the benefits offered by the scheme or to explain in greater detail where members have a challenge in understanding the complex make-up of the LGPS benefit structure. These sessions are offered to employers at no cost and continue to be a practical way of resolving issues within the workplace, promoting the LGPS and the Fund's reputation and willingness to respond to member queries.

Club Together

The Fund provides pensioners with an annual magazine through the affinity group, *Club Together*. The magazine is published by the affinity group and the Fund use the distribution as a vehicle to include a newsletter providing relevant pension information.

Existence Validation: Pensioners Living Abroad

The Fund undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

The costs of the exercise is usually outweighed by the number of validations that lead to pensions being suspended or stopped early due to the death of the member where we have yet to be informed.

Web Portal Facility

An online portal provides members with a secure access to their Local Government Pension Scheme records. The facility provides members with the opportunity to keep the Fund updated with their personal details, ask questions, access annual benefit statements and run pension estimate calculations. Pensioners of the Fund are also able to view pension pay information via the portal.

Prospective Scheme Members

Scheme Booklet

Upon appointment with their employer, all new prospective scheme members will be provided with a link to the Fund's website at wmpfonline.com where they can access scheme booklets.

Website

The Fund's website at wmpfonline.com will contain specific information for non-joiners. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to opt out of the scheme.

Non-Joiner Campaigns

The new joiner campaigns have been superseded by the introduction of the automatic enrolment legislation.

Corporate Induction Courses

Where required, Fund officers will attend corporate induction events in order to present to prospective scheme members the benefits of joining the LGPS.

A 'one-on-one' surgery will also be offered to take account of individual queries that may be raised at such meetings.

Pension Roadshows

As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from in-house AVC providers.

This will ensure members receive the information required to make an informed choice with regards to their pension provision.

Trade Unions

We will work with the relevant trade unions to ensure the scheme is understood by all interested parties. Training days for branch officers can be provided upon request, and efforts will be made to ensure that all pension-related issues are communicated effectively with the trade unions.

Scheme Employers

Internet

The Fund has established an extensive website at wmpfonline.com containing scheme details and leaflets, etc.

Dedicated Telephone Helpline

Employers: 0300 111 6516

A dedicated low-call rate employer customer service line was introduced during 2010/2011. This allows the Fund to respond to employer generated telephone calls as a priority at peak times, rather than introduce automated telephone responses.

Technical Newsletter

A technical newsletter, entitled *Employer's Briefing Note* is issued on a bi-monthly basis to all employers. This medium is also used to communicate any issues that are currently under debate. Changes to the regulations which impact upon the employer's function or their employees are also covered.

Employers' Manual

An employers' manual is issued to assist the smaller employers in discharging their pensions administration responsibilities.

Ill-Health Retirements

A Guidance Manual for Approved Doctors has been circulated to appropriate employers within the Fund.

All Employer Meetings

The Fund has introduced an annual general meeting for employers which is used to communicate strategic issues, Fund performance, legislation changes and triennial valuation matters. Meetings may also be arranged in addition to the annual general meeting in order to address specific topics, for example, consultation meetings were organised when the draft regulations were released in connection with the 2014 changes to the scheme.

The Fund also hosts a second employer event in which employers can be further kept up to date with important issues. This is usually held in the summer (as opposed to the AGM which is a winter event) and is known as the 'Mid-Year Review'. This event takes the form of roundtable discussions.

Access to Computerised Pensions Administration System, Fund Website and Web Portal

Each major employer has access through the Fund's online portal to the pension records of their current employees, together with a calculation suite for the provision of estimates direct to employees. This has been developed to improve efficiency and convenience for both employers and members of the Fund.

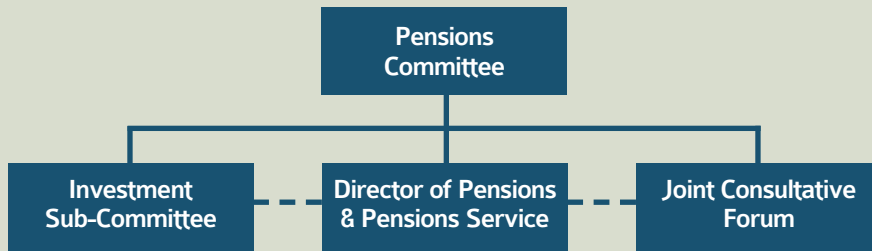
The portal provide benefits to employers which include the ability to make online changes to active member details such as changes in hours and change of address, provide the facility to calculate early retirement estimates and employer early retirement costings, as well as view pension records for their active members.

Employers' Manual

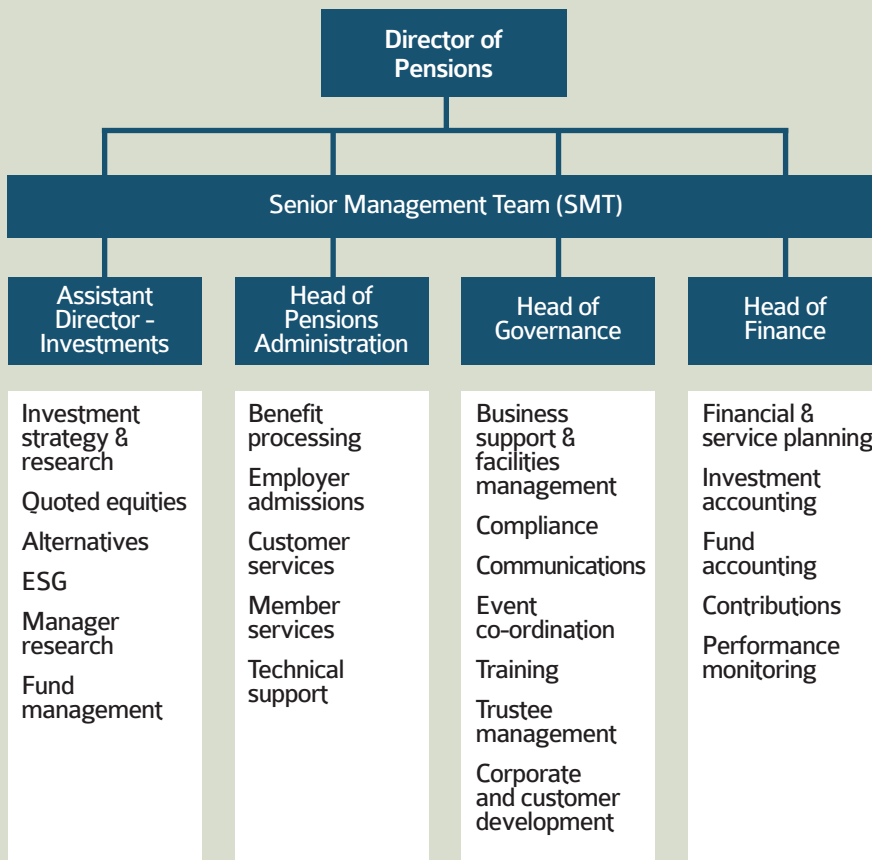
A group consisting of a cross-section of Fund employers was set up in 2013/14 to give feedback on the communication initiatives planned to promote the scheme changes of 1 April 2014. The group has become highly effective in representing the views of scheme employers and will remain in place to provide a voice on Fund activities.

Fund Staff

The Fund's day-to-day management is headed up by the Director of Pensions. For day-to-day functionality, the principal functions are carried out by:



The pensions service is structured as follows:



Management Meetings

SMT Senior Management Team

Senior managers from the relevant sections are required to attend a monthly meeting with the Director of Pensions to discuss strategic and workload issues.

Staff Standards

Staff are expected and will be supported in order that they can operate within the following standards:

- i) Public expectations of how staff from the Fund should operate.
- ii) Professional body standards to which staff are members.
- iii) The Council's constitution.

iv) Specific service standards, eg, investment compliance manual, benefits, operating service standards.

v) With an attitude and approach that directly delivers a responsive, friendly, professional service and supports colleagues in achieving this objective.

vi) In accordance with the West Midlands Pension Fund service defined operating practices.

Team Meetings

Office and/or team meetings are held on a regular basis. Any items arising from such meetings can be escalated through senior managers to SMT.

SharePoint

SharePoint gives all staff access and contain such information as procedure manuals, core briefings, LGPC circulars, etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

Induction

All new members of staff undergo an induction, which is supported by an induction/personnel manual. The Fund has introduced a performance appraisal scheme for staff which is backed by a balanced scorecard approach. There is, therefore, a responsibility on all staff to ensure effective communication at all levels across the service.

Internet

All staff are able to use the corporate network in order to access the internet.

Emails

All staff have access to the email facility.

Project Management

The Investment Division complies with FSA requirements in order to benchmark its work and operating standards. All major projects are subject to formal management arrangements.

Director of Pensions

The Director of Pensions maintains an open-door policy, and attempts to make herself available to all staff through regular surgeries.

Website

The Fund has maintained a website for several years at wmpfonline.com

While this is intended primarily as a means of external communication, access to the site does prove helpful to Fund staff. Where necessary, information is also made available on the Fund's intranet.

Staff Briefings

The staff of the Fund are able to sign-up for monthly briefings on a variety of topics. These are designed to give staff a flavour of the activities of areas of the business in which they would not normally have day-to-day contact.

Staff Briefing Note

Fund staff receive a bi-monthly publication called the *Staff Briefing Note* which updates them on the activities of all areas of the business, changes in legislation, new staff and the Fund's charitable activities. Content is curated by the Fund's Communication Officer and is submitted by Fund officers.

Staff Forum

The views of the staff are taken into account through the Staff Forum which is made up from representatives from all areas of the business. The Staff Forum discuss Fund issues and make recommendations to the Senior Management Team in their monthly meetings.

Other Bodies - Opportunities For Exchanges Of Information And Communication Of Pensions Issues

Trade Unions

Trade unions in the West Midlands are valuable ambassadors for the scheme. They ensure that details of the scheme's availability are brought to their members' attention, and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the scheme.

Shrewsbury Pensions Officers' Group

Pensions officers from administering authorities in the region meet regularly in order to share information and ensure uniform interpretation of the scheme, and other prevailing regulations.

The Press

The Fund has developed a strong media profile through its success in pension industry awards, articles authored by Fund officers and press releases to stakeholders.

Seminars

Fund officers regularly participate at seminars and conferences.

Joint Consultative Forum

A Joint Consultative Forum meets quarterly at which elected representatives from the district councils in membership of the Fund are present, together with a wide audience of trade union representatives. These meetings are informed of the issues being discussed by scheme trustees and broader pensions matters which may be of interest to trade unions and their members.

Local Government Association (LGA)

Communications Working Group

The Fund is represented on the national group by its Communications Officer and makes up one of the 16 represented pension funds. The group discusses communications topics and collaborates by sharing best practice.

Media Matrix

Communication Material	Paper-based	Electronic form (PDF)	SharePoint for staff	Website	Web portal	Large sight copy	Braille	When published	When reviewed
Short Guide to the LGPS	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Quarterly
All About Your Scheme	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Quarterly
Benefit Statements	Upon request	Non-personalised form	✓	Non-personalised form	✓	Upon request	Upon request	Annually	Annually
Information Sheets (various)	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Constant review
Report and Accounts	Upon request	✓	✓	✓	✗	Upon request	Upon request	Annually	Annually
Glossary of Pension Terms	Upon request	✓	✓	✓	✗	Upon request	Upon request	Annually	Annually
The Role of Actuary and Advisor	Upon request	✓	✓	✓	✗	Upon request	Upon request	Annually	Annually
Customer Charter (our service standards)	Upon request	✓	✓	✓	✗	Upon request	Upon request	Constantly available	Annually
Employers' Manual	Upon request	✓	✗	✗	✗	Upon request	Upon request	Constantly available	Annually
Pay Advice	Upon request	✗	n/a	✗	✓	Upon request	Upon request	Produced monthly	After each publication
Press Articles	Upon request	✓	✓	✓	✗	Upon request	Upon request	As required	After each publication

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Pensions Committee

25 June 2014

Report Title Investment policy and performance report
2013/14

Originating service Pension Services

Accountable officer(s) Geik Drever Director of Pensions
Tel 01902 55(2020)
Email Geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision

1. Members are requested to endorse the Investment Advisory Sub Committee's approval to proposals for modifications to the strategic risk bands set out in section 4.0, which lead to an increase in the ranges for equities (to 50-70% of the Fund from 45-65%) and to a lowering of the ranges for alternative investments (to 15-25% from 20-30%). If approved, the changes will be implemented with effect from 1 July 2014.

Recommendation(s) for noting:

The Committee is asked to note:

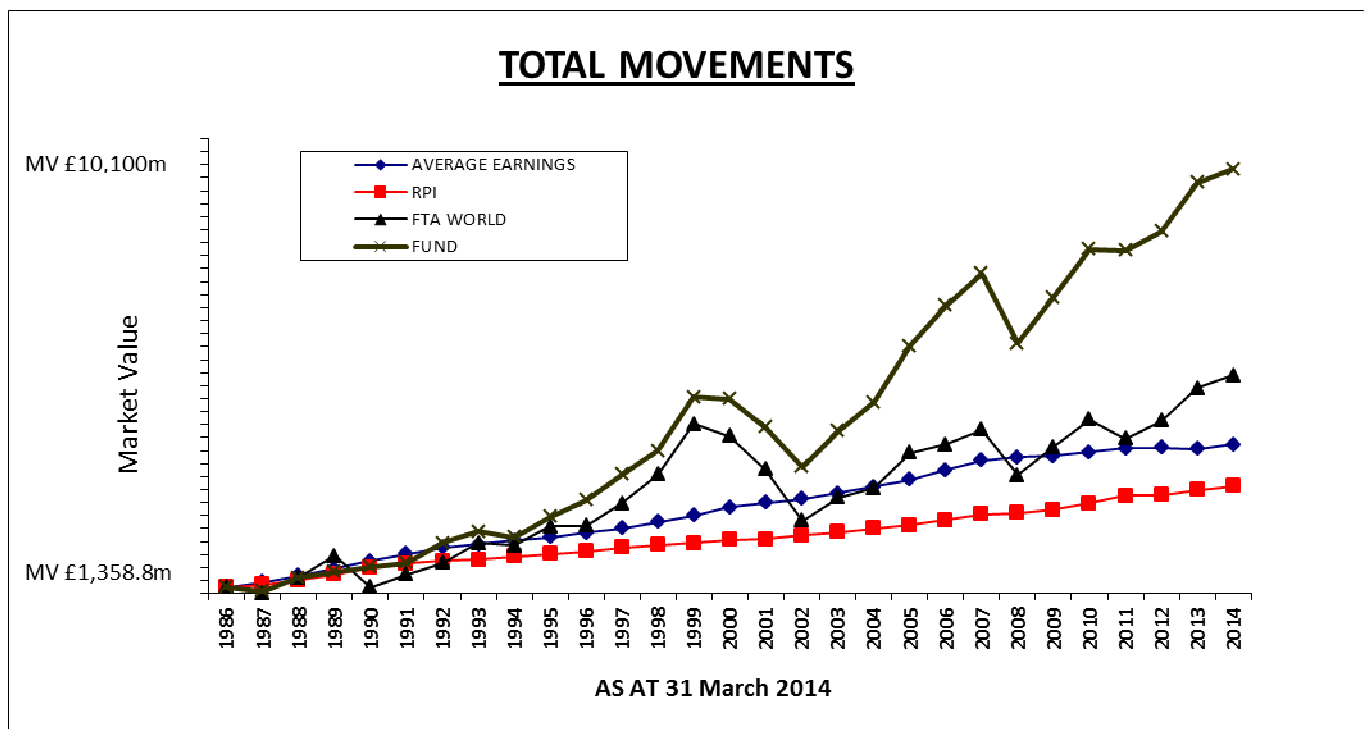
1. The Fund's investment policy, investment strategy and investment returns for the year to 31 March 2014.

1.0 Purpose

1.1 This report outlines details of the Fund's investment policy and performance for the year ending 31 March 2014 and proposed changes to strategic risk bands with effect from 1 July 2014.

2.0 Investment Policy

- 2.1 Investment policy is reviewed annually with the next Strategic Investment Allocation Benchmark (SIAB) to be presented to the Committee in September 2014. The Fund's focus has been on a long term investment strategy focussing on three principal asset classes – quoted equities, fixed interest and alternative investments. These are combined to provide diversification and reduce volatility. In recent years, the key trend has been to reduce dependence on the equity risk premium and to increase exposure to alternative investments. The fund continues to have a return seeking strategy with a total return target of 6.9% per annum with returns predominantly generated from markets (6.0%) and the balance (0.9%) from active management.
- 2.2 Since 2012, the fund has not deployed tactical asset allocation and in December 2013, the Investment Advisory Sub Committee agreed that tactical asset allocation should cease as it would not add any value within the agreed SIAB framework.
- 2.3 At the beginning of the year, the Fund's market value was £9.812bn. By the end of March 2014, the value of the Fund was £10.100bn which reflects net cashflow and appreciation in market value. The graph below illustrates the cumulative movement of the Fund since 1986 resulting from the implementation of investment policies, market movements, unrealised profits and net cash inflows.



2.4 The Fund continues to have strong positive cash inflows, though future cash flows will be impacted over time by a reduction in contributions due to a fall in active membership as a result of redundancies, early retirements and members choosing to opt out. This may be countered by Automatic Enrolment by 2017.

3.0 Asset allocation

3.1 The following table shows a summary of the asset distribution for the year ended 31st March 2014 compared with the Strategic Risk Bands agreed by the Pensions Committee. The Fund's closing market value of £10.1bn reflects the appreciation of investments during the period and a net investment of £83.2m.

Portfolio	Strategic Risk Bands %	Opening Levels %	Closing Levels %	Closing Market Value £M	Net Investment £M
UK Equities		9.9	10.0	1,004	-17.1
Global Equities		5.0	5.2	526	-0.8
Total Overseas Equities		27.9	30.7	3,100	+303.4
North America		9.6	9.7	979	-42.2
Continental Europe		5.9	6.7	678	+5.6
Pacific Ex Japan		4.3	4.1	414	+32.1
Japan		1.9	1.8	183	+1.3
Emerging Markets		6.2	8.4	846	+306.6
Private Equity		12.6	12.3	1,240	-83.5
Total Equities	45.0-65.0	55.4	58.2	5,870	+201.9
UK Gilts		2.0	1.9	192	0.0
Specialist Fixed Interest		3.3	3.3	337	+9.0
Index Linked Gilts		6.8	6.3	639	0.0
Corporate Bonds		4.8	4.8	481	0.0
Emerging Market Debt		3.3	2.6	264	-29.8
Cash		3.3	2.6	264	-61.3
Total Fixed Interest	15.0-25.0	23.5	21.5	2,177	-82.2
Property		8.6	9.2	928	+36.9
Absolute Return		7.1	6.4	642	-55.1
Infrastructure		3.3	2.9	293	-20.9
Commodities		2.1	1.9	190	+2.6
Total Alternatives	20.0-30.0	21.1	20.3	2,053	-36.5
Total Non-Equities	35.0-55.0	44.6	41.8	4,230	-118.7
Total		100.0	100.0	10,100	+83.2

3.2 All main asset classes closed within their wider strategic risk bands.

- 3.3 The investment strategy allocation is determined in accordance with the regulations (LGPS - Management and Investment of Funds - Regulations 2009) and its formulation is set out in the Fund's Statement of Investment Principles. In accordance with the investment management regulations, the schedule of limits on investments is varied to an upper limit of 30% for commitments to partnerships and 15% for investments in unlisted securities of companies. These limits are kept under review and reviewed every time the SIP is reviewed.
- 3.4 The most significant asset allocation changes made during the year were an increase in the allocation to equities (net investment of £201.9m) and a reduction in the allocation to cash, fixed interest and alternative investments (net disinvestment of £118.7m in aggregate).
- 3.5 Within equities, the decision was taken to increase the Fund's exposure to emerging markets equities, in conjunction with the introduction of new segregated investment management arrangements (with the appointments of AGF, Foreign & Colonial and Mondrian). In total £306.6m was allocated, taking advantage of relative weakness in emerging markets. The Fund's exposure to Pacific Basin equities was also increased (£32.1 million) and exposure to North American equities reduced (£42.2 million) in order to bring allocations closer to target levels.
- 3.6 In private equity, a net £83.5 million was realised with distributions exceeding drawdowns, in line with a profile of maturing funds and firm capital markets. Commitments to new funds totalled £217 million.
- 3.7 There were disposals of underperforming funds and some distributions in the absolute return and infrastructure portfolios. Funds were allocated selectively to property - £36.9m net – both directly and in indirect vehicles. A commitment was made to a fund specialising in agricultural investment.
- 3.8 Cash balances were reduced by £61.3 million and exposure to emerging markets debt was trimmed (£29.8 million).

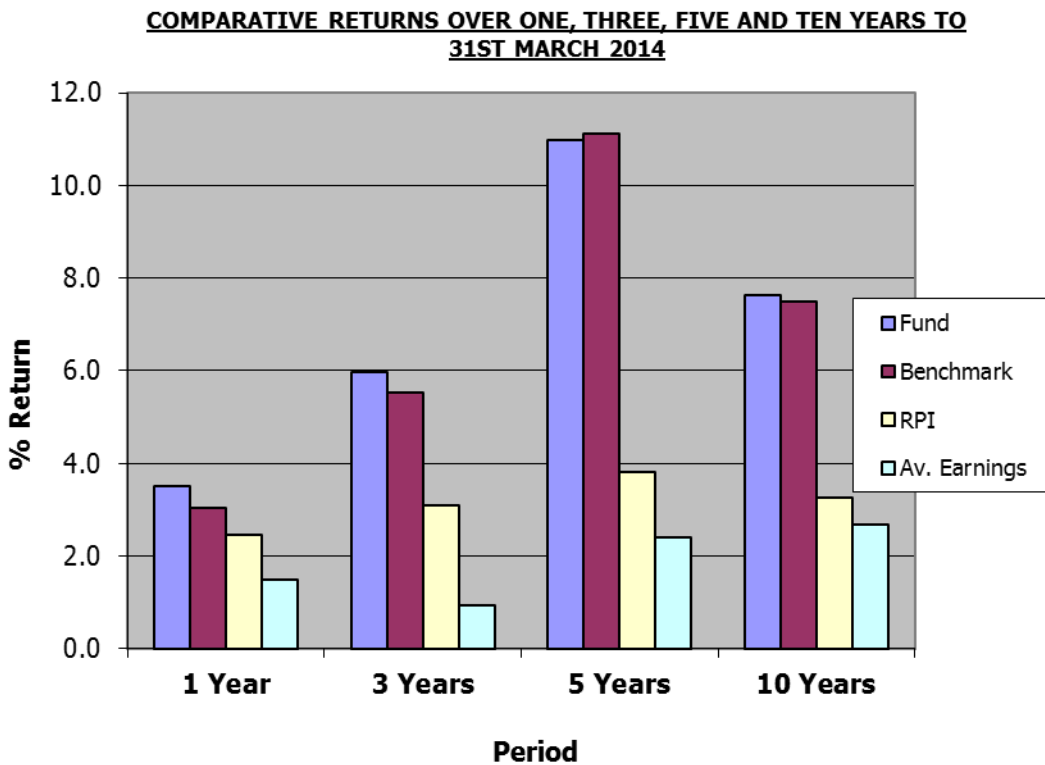
4.0 Proposed changes in strategic risk bands

- 4.1 During April 2014, the Fund received £184 million from Councils in order to prepay a proportion of deficits arising from past service. It is planned also to reduce the exposure to commodities funds on a phased basis from June 2014 with a view to exiting from them entirely by the end of 2014.
- 4.2 It is recommended that these cash flows are allocated in the main to quoted equities.

4.3 In light of these changes, it is recommended that the medium term strategic ranges for quoted equities are raised to 40-60% (from 35-55%) and for total equities to 50-70% (from 45-65%). Correspondingly it is also recommending that the medium term ranges for alternative investments are lowered to 15-25% from 20-30%. The ranges for the fixed interest segment are to remain unchanged. The Investment Advisory Sub-Committee approved these changes at its meeting in March 2014 and the Pensions Committee is now invited to endorse these changes, which will be implemented with effect from 1 July 2014.

5.0 Returns to 31 March 2014

5.1 The Fund's returns over one, three, five and ten years compared to its bespoke benchmark, retail prices index (RPI) and average earnings are illustrated in the chart shown below.

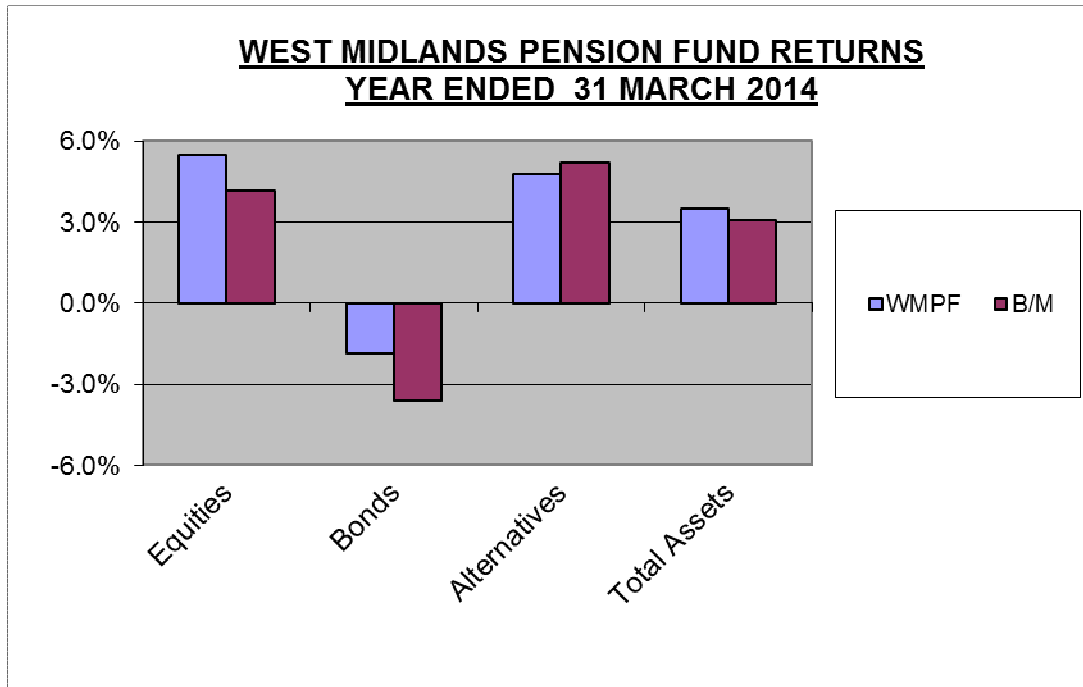


5.2 In the year to 31 March 2014, the Fund delivered a return of 3.5%, ahead of its bespoke benchmark of 3.1%. The main contributors to the outperformance were good relative performances from the quoted equities and fixed interest portfolios.

5.3 A return of 6.0% per annum was achieved by the Fund in the three years to 31 March 2014, ahead of the bespoke benchmark return of 5.5%. This was mainly due to strong returns from UK and Overseas equities portfolios.

5.4 The Fund's 10 year return of 7.6% per annum is slightly ahead of the benchmark of 7.5% but remains comfortably ahead of increases in RPI and Average Earnings.

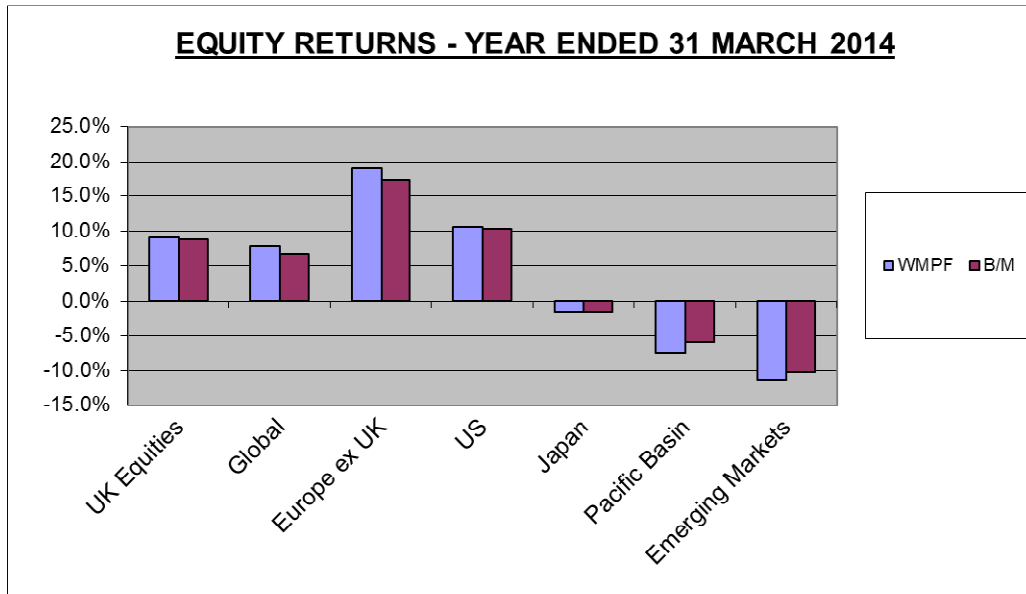
5.5 The graph following illustrates the returns of the Fund's main asset classes for the year ended 31 March 2014 and compares them to the returns from its bespoke benchmark.



Note: the scheme-specific benchmark for individual asset classes are recognised indices, but for the wider asset classes is a combination of weighted indices.

5.6 The Fund's total return outperformed its scheme specific benchmark by +0.4% for the year. The outperformance was achieved mainly because of outperformance in quoted equities and fixed interest. Performance was mixed in the absolute return portfolios – private equity fared well but commodities, property and infrastructure were weak. Directly held property also contributed positively to the Fund's return for the year. Further details on the performance of the different segments of the fund are set below.

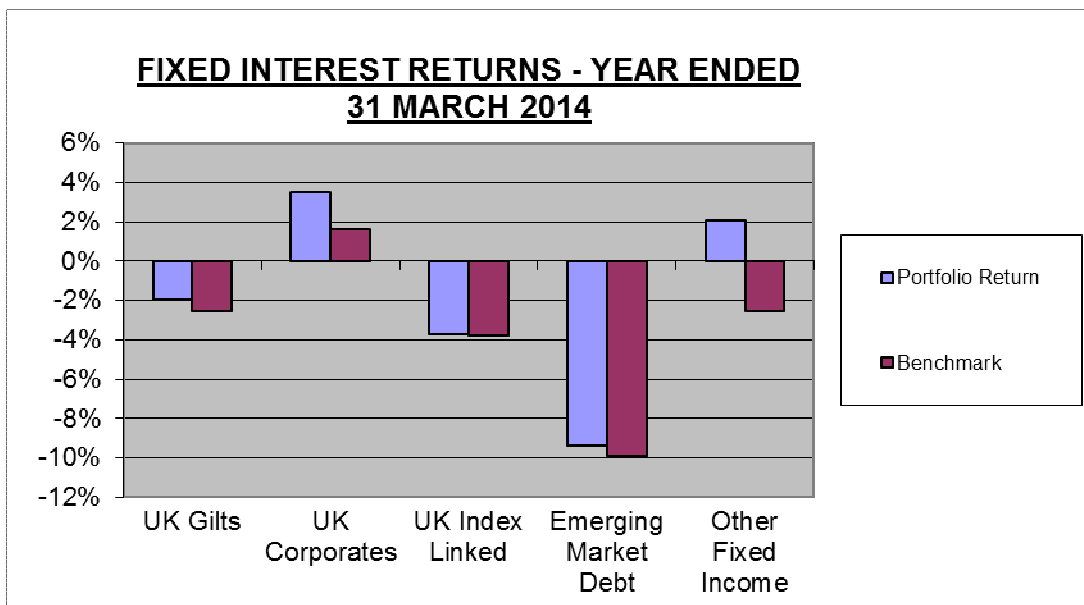
5.7 The graph below illustrates the returns of the different quoted equity markets:



5.8 Developed market equities posted positive returns, with Europe (ex UK) faring notably well. Emerging markets equities, by contrast had a poor year, as did Pacific Basin markets and Japan (due to Yen weakness).

5.9 The Fund's quoted equities portfolio outperformed, with a return of 5.5% achieved compared with a benchmark return of 4.1%. The Europe (ex UK) and global equities portfolios performed notably well.

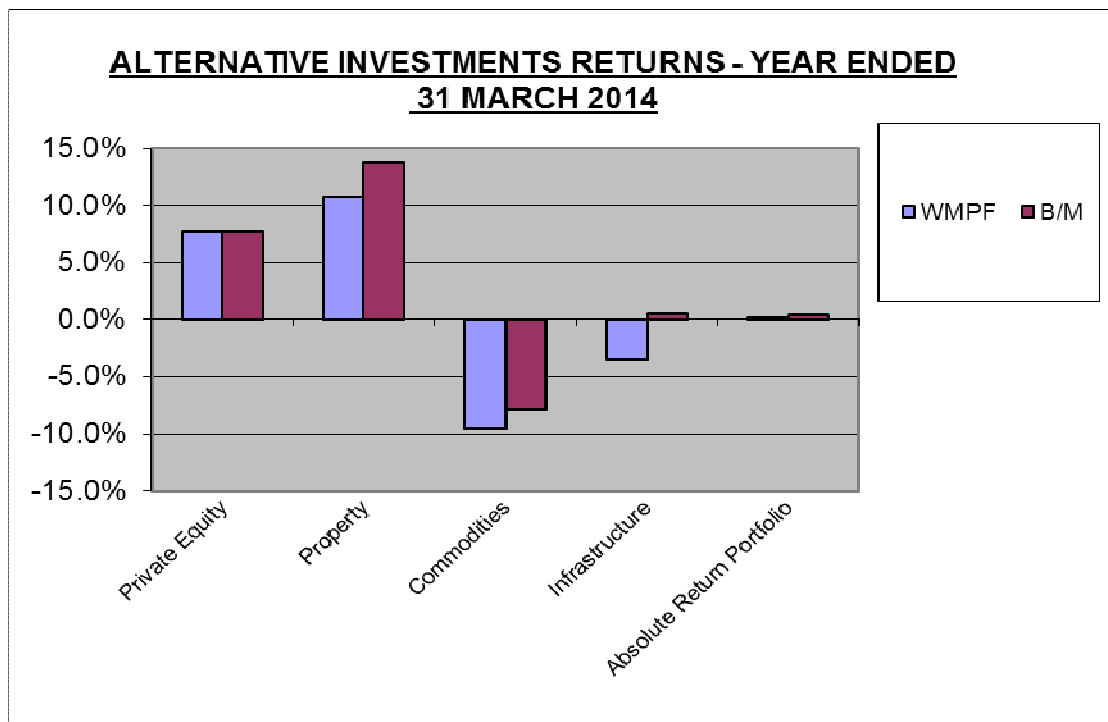
5.10 The graph below illustrates the returns of the different bond markets:



5.11 Fixed interest markets had a difficult year, in particular emerging market debt and gilts (both conventional and index linked), reflecting the prospect of the ending of quantitative easing measures and the possibility of interest rate rises.

5.12 The Fund's fixed interest portfolio outperformed, with a return of -1.9% ahead of the benchmark return of -3.6%. The corporate bond fund holdings fared notably well, as did the specialist fixed interest funds (categorised as "other fixed interest").

5.13 The graph below shows the returns from the Fund's investments that make up the alternative assets:



5.14 There were varying performances from the alternative investments portfolios during the year. The private equity portfolio posted a return of 7.7%, reflecting profitable distributions and firmer stock markets. It was a good year for direct property, too. The Fund's consolidated property portfolio's return of 10.8% lagged its benchmark at 13.8% but within the overall picture, the directly held UK property holdings fared well with a return of 14.1%. The indirect holdings – predominantly overseas – posted a modest 3.9% return.

5.15 There were weak performances from commodities (-9.5%) and infrastructure (-3.5%), reflecting poor market conditions in the former and underperformance in certain funds in the case of the latter. In absolute return, performance was dull (0.2%), but within the overall picture, there were good performances from insurance linked funds and special opportunities, offset by a weak performance from hedge funds.

6.0 West Midlands Pension Fund historical returns

6.1 The returns as at 31 March 2014 achieved by the Fund in the main asset classes in which it invests are shown in the table below, as are the three and five year annualised returns where available.

	1 Year %	3 Year %	5 Year %
UK Equities	9.04	8.92	16.35
European Equities	19.09	7.32	14.69
US Equities	10.55	12.29	17.78
Pacific Basin Equities	(7.79)	2.03	13.38
Japanese Equities	(1.56)	4.34	7.59
Emerging Markets Equities	(11.29)	(3.69)	12.13
Global Equities	7.76	8.86	14.33
Gilts	(1.98)	5.36	4.38
Index Linked	(3.74)	7.90	8.15
Corporate Bonds	3.53	7.48	10.45
Property	10.80	8.68	9.74
Private Equity	7.73	8.51	7.49
Commodities	(9.50)	(7.02)	0.47
Emerging Market Debt	(9.41)	3.11	9.83
Infrastructure	(3.49)	2.17	2.32
Absolute Return Strategies	0.18	4.04	5.79
Total Fund	3.51	5.97	10.90

6.2 The above table clearly highlights the strong performances delivered by stock markets since 31 March 2009, which have been the most important driver of the Fund's returns over that period. March 2009 marked the start of the recovery in stock markets following the policy measures taken by the authorities in the wake of the financial crisis of 2008. Returns over the past three years have been lower and it is suggested that these better reflect how markets will fare over the long term in the future.

6.3 Returns from other asset classes have been lower over the past five years but have been less volatile, too – with the exception of commodities, which have delivered negative returns accompanied by high volatility.

6.4 Following the market turmoil of 2008, a new investment strategy was adopted in 2009, with a reduction in the target allocation to quoted equities (from 60% to 45% currently) and a corresponding increase in the allocation to alternative investments. Against the backdrop of stronger stock markets since 2009, the change in strategy has not to date enhanced returns but the increased diversification has been designed to protect the portfolio in tougher market conditions.

7.0 Investment management and portfolio construction

- 7.1 The investment policy of the Fund is considered at each quarterly meeting of the Investment Advisory Sub-Committee and implemented by the Investments Division. The Division consists of a number of specialist teams which reflect the asset allocation and functions of the Fund. These teams currently cover quoted equities, alternative investments and fixed interest.
- 7.2 The Division manages approximately 85% of total investments in-house, with the balance managed via external segregated management arrangements.
- 7.3 The Fund recognises that the mainstream quoted equities and fixed interest markets are the most efficient, thus passive management dominates within these asset classes. Although most use of specialist managers is within alternative assets, the Fund uses active management in mainstream liquid assets where inefficiencies and market opportunities exist. Examples of this are found in global and emerging market equities.

8.0 Financial implications

- 8.1 This report demonstrates the Fund's primary objective of maximising financial returns.

9.0 Legal implications

- 9.1 This report contains no direct legal implications.

10.0 Equalities implications

- 10.1 None identified.

11.0 Environmental implications

- 11.1 None identified.

12.0 Human resources implications

- 12.1 None identified.

13.0 Corporate landlord

- 13.1 None identified.

14.0 Schedule of background papers

- 14.1 There are no background papers except those listed in the report.



Pensions Committee

25 June 2014

Report title	2014 Budget and the impact for pensions	
Originating service	Pension Services	
Accountable employee(s)	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendations for noting:

1. The Committee is asked to note the contents of the report.

1.0 Purpose

- 1.1 The report outlines the key 2014 Chancellor's budget changes impacting on pension schemes and in particular the Local Government Pension Scheme.

2.0 Background

- 2.1 In the March 2014 Budget the Chancellor announced a number of changes designed to give pension savers of defined contribution schemes greater flexibility over their retirement savings. The changes will form part of a larger reform effective from April 2015.
- 2.2 The changes will also have implications for defined benefit schemes especially public sector defined benefit schemes including the Local Government Pension Scheme.
- 2.3 There were also changes effective immediately from 27 March 2014.

3.0 Changes effective from 27 March 2014.

- 3.1 The current trivial commutation lump sum limit of £18,000 increased to £30,000.
- 3.2 The £2,000 small sums commutation limit that can be taken without considering other registered pension scheme rights in their entirety increase to £10,000.
- 3.3 The Fund will undertake an assessment of the potential scale this will have.

4.0 Changes effective from April 2015

- 4.1 It is proposed that a member of a defined contribution scheme will not be required to take an annuity. They will be able to take all of their pension fund as a cash lump sum. Only 25% of their fund value will be as tax free cash, any balance take in cash form will be taxable at their marginal rate of income tax.
- 4.2 This would have implications for defined benefit schemes as the government recognises that this greater flexibility could lead to more people seeking to transfer from defined benefit schemes to defined contribution schemes.
- 4.3 For public service unfunded defined benefit schemes this could represent a significant cash-flow impact and therefore the Government intends to prevent transfers from defined benefit public service schemes to defined contribution schemes. Although the Local Government Pension Scheme (LGPS) is funded, the Government, in the interest of fairness and consistency may subject the LGPS to a similar ban.

5.0 Financial implications

5.1 The report contains financial information which should be noted.

If the Fund chooses to undertake a trivial commutation exercise in line with the budget changes, this could serve to reduce the pension liability for participating employers and consequently impact on funding levels.

There are also savings that could be made in terms of the reduced administrative costs faced by the Fund and these will be investigated further as part of the cost/benefit analysis.

6.0 Legal implications

6.1 This report contains no direct implications.

7.0 Equalities implications

7.1 This report has no direct implications.

8.0 Environmental implications

8.1 This report has no direct implications.

9.0 Human resources implications

9.1 This report has no direct implications.

10.0 Corporate landlord implications

10.1 This report has no direct implications.

11.1 Schedule of background papers

11.2 There are no associated background papers.

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Pensions Committee

25 June 2014

Report title	Administering Authority Policy Discretions	
Originating service	Pension Services	
Accountable employee(s)	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk
Report to be/has been considered by		

Recommendation(s) for action or decision:

1. The Committee is recommended to approve the Administering Authority Policy Discretions for publication on the Fund's website.

1.0 Purpose

- 1.1 To present to Committee the proposed Administering Authority Policy Discretions. Following approval, the discretions will be formatted in line with Fund documentation and published on the website.

2.0 Background

- 2.1 The Local Government Pension Scheme in England and Wales has been amended from 1 April 2014. As a result of the changes the Fund is required to formulate, publish and keep under review a statement of policy on certain discretions. Discretion is taken to include where the Administering Authority is required to carry out a task but an element of choice is seen to exist as to how the task is completed.
- 2.2 A certain number of the discretions are subject to the formulation and publication of a written policy, but there are many more where there is no requirement for a written policy. As there is an element of choice for the Administering Authority these are included in the policy statement.
- 2.3 Many of the existing discretions in place for the 2008 Scheme have been continued in the 2014 scheme and the document reflects the appropriate change in the regulation and these are highlighted red in the draft.

3.0 Key Discretions

- 3.1 The following are the discretions that the administering authority must have a written policy statement on:
- Whether to waive in whole or in part actuarial reduction on benefits paid on flexible retirement where the employer no longer exists.
 - Whether to waive in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age where the employer no longer exists.
 - A Governance policy stating whether the administering authority delegates its functions or part of its functions in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority. It must also state the frequency of meetings, terms, structures and operational procedures in relation to the delegation. It must also state whether representatives of employing authorities or members are included and if so whether they have voting rights.
 - The Funding Strategy for inclusion in the funding strategy statement.
 - A Communication policy setting out the provision of information and publicity about the scheme to all relevant groups. The format, frequency and method of distributing such information publicly. The promotion of the scheme to prospective members and their employers.

3.2 The Fund's policy statement of discretions which includes those above can be seen at Appendix 1. This statement highlights the regulation under which a discretion is permitted and the Fund's proposal for using that discretion.

4.0 Financial implications

4.1 As noted in the report.

5.0 Legal implications

5.1 As noted in the report.

6.0 Equalities implications

6.1 As noted in the report.

7.0 Human resources implications

7.1 There are no direct human resources implications.

8.0 Environmental implications

8.1 There are no direct environmental implications.

9.0 Corporate landlord implications

9.1 The report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 Administering Authority Policy Discretions for publication on the Fund's website.

10.2 Legislation The Public Service Pensions Act 2013
<http://www.legislation.gov.uk/ukpga/2013/25/contents>

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Administering Authority Policy Statement - DRAFT

Under the LGPS Regulations, the Fund is required to formally publish its policy on “discretions”. Discretions is taken to include where the administering authority is required to carry out a task, but an element of choice is seen to exist as to how the task is completed.

Unless stated otherwise the references to regulations are to the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007(as amended), the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and the local Government Pension Scheme Regulations 1997(as amended).

The following prefixes will be used in this document to indicate the relevant regulations:

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

Admission of Admission Bodies [Regulation R4, R3(5) RSch2]

The administering authority may make an admission agreement with any admission body. The administering authority can also make admission agreements with a Care Trust, NHS Scheme employing authority or Care Quality Commission.

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

Right to Terminate Admission Agreement [RSch2]

The administering authority has the right to terminate an admission agreement in prescribed circumstances.

The Council shall retain the right to terminate an admission agreement in the event of:

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

Additional Pension Contributions [R16]

The administering authority may turn down a request to pay an Additional Pension Contribution (APC) or Shared Cost Additional Pension Contribution (SCAPC) over a period of time where it would be impractical to allow such a request. The member would still be able to pay via a single lump sum payment.

Due to the administration costs involved requests to pay Additional Pension Contributions or Shared Cost Additional Pension Contributions over a period of time in order to address an absence from work of less than 10 working days will be refused unless there are exceptional circumstances.

Medical Examination Required for Purchase of APC/SCAPC [R16]

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

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

Payment of Additional Voluntary Contributions on the death of a member [R17]

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

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

Provision of Estimates in Relation to Transfers of AVCs/FSAVCs [TP15 and A28]

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

The Council has determined that it will not charge for such estimates.

Pension Accounts [R22]

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

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

Concurrent Employment and the Absence of an Election Form [TP10]

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

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

Retirement Benefits [R30]

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

The administering authority may also in cases where the current employer or the former employer has ceased to be a Scheme employer may consent to waive, in whole or in part the actuarial reduction on benefits paid on flexible retirement.

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

Strain on the Fund [R68]

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

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

Switching on the Rule of 85 [TP Sch 2]

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

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

Waiving the reduction [TP Sch 2 & B30]

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

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

Strain on the Fund [TP Sch 2]

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

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

Extension of the time limit to draw benefits [R32]

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

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

Commutation of small pensions [R34 & B39]

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

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

Independent Registered Medical Practitioner – approval [R36 & A56]

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

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

Certificate produced by an IRMP under the 2008 Scheme [TP]

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

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

Early payment on ill health grounds-deferred member [R38]

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

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the Independent Registered Medical Practitioner.

Early payment on ill health grounds – deferred pensioner member [R38]

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

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the Independent Registered Medical Practitioner.

Payment of the death grant [R40, R43,R46,TP17 & B23,B32,B35]

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

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

No double entitlement –benefits due under two or more regulations [R49 &B42]

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

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

Admission agreement funds- [R54]

The administering authority may establish an admission agreement fund

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

Governance compliance statement [R55]

The administering authority must prepare a governance policy stating whether the administering authority delegates its functions or part of its functions in relation to maintaining a pension fund to a

committee, a sub-committee or an officer of the administering authority, and if they do so delegate, state:

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

the policy must also state:

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

The governance compliance statement will be prepared, maintained and published. A copy will be made available on our website www.wmpfonline.com

Funding strategy statement [R58]

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

The funding strategy statement will be prepared, maintained and published. A copy will be made available on our website www.wmpfonline.com

Pension administration strategy [R59]

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

The administering authority will publish a pension administration strategy after consultation and it will be kept under review.

Communications policy [R61]

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

The administering authority will publish and maintain a communications policy, a copy of which will be made available on our website www.wmpfonline.com

Revision of employer's contribution rate [R64]

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

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

Aggregate scheme costs – revised certificates [R65]

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

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

Employer contributions – dates for payment [R69]

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

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

Information provided by employers about contributions – frequency and format [R69]

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

The administering authority will provide to employers the specified formats that employers are to use for their year end returns. A notification will be issued each year to inform employers of the deadline to submit this data along with any format changes that will be required. The Fund requires this data to be submitted to them no later than 30 April.

Notice to recover costs due to employer's performance [R70]

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

The Council will review from time to time whether to issue an employer with notice to recover additional costs incurred as a result of the employer's level of performance.

Employer payments – interest on overdue payments [R71]

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

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

Procedure to be followed when exercising stage 2 dispute functions and the manner in which those functions are to be exercised. [R76 & A60]

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

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

Appeal to the Secretary of State against employer decision [R79 & A63]

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

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

Exchange of information [R80]

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

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

Making payments in respect of deceased person without probate/letters of administration [R82 & A52]

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

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

Payments for persons incapable of managing their affairs [R83 & A52]

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

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

Date to which benefits shown on annual benefit statement are calculated [R89]

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

The date will be selected having had regard to regulatory requirement and best practice.

Bulk transfer (transfer of undertakings) [R98]

The administering authority must agree any bulk transfer payment.

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

Transfers into the Fund and extension of 12 month time limit [R100]

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

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

Final Pay Reductions [TP]

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

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

Permanent Reductions in pay- Certificates of Protection [TP & TSch1 & L23(9)]

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

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

Eligible child – ignoring breaks [RSch 1 & TP]

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

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

Financial dependence /interdependence of cohabiting partner [RSch & TP & B25]

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

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

Abatement of Pre 1 April 2014 pension [TP & A70]

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

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

Extension of time period for capitalisation of added years contract [TP & TSch1 & L83(5)]

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

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

Recovery of unpaid employee contributions as debt/from benefits [A45]

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

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

Consent for early payment and waiving of reduction [B30]

The administering authority may consent to the early payment of deferred benefits for a member aged between 55 and 60 where the former employer has ceased to be a scheme employer, it may also consent to waive the reduction on compassionate grounds.

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

Application for early payment of a suspended tier 3 ill health pension and waiving reduction [B30]

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

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

Request for early payment of deferred benefits on ill health grounds [B31]

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

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

Spouses' pensions arising under the 1995 Regulations payable for life

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

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

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Pensions Committee

25 June 2014

Report Title	WMPF Internal Audit Plan 2014/15	
Classification	Public	
Originating service	Pension Services	
Accountable officer(s)	Geik Drever Tel Email	Director of Pensions 01902 55(2020) geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The committee is recommended to:

1. The Committee is recommended to approve the 2014/15 Internal Audit plan for the West Midlands Pension Fund.

1.0 Purpose

1.1 To approve the 2014/15 Internal Audit plan for the West Midlands Pension Fund.

2.0 Background

2.1 This report is provided annually by Wolverhampton City Council's Audit Services.

3.0 Financial implications

3.1 This report contains no direct financial implications.

4.0 Legal implications

4.1 This report contains no direct legal implications.

5.0 Equalities implications

5.1 This report contains no direct equal opportunities implications.

6.0 Environmental implications

6.1 This report contains no direct environmental implications.

7.0 Human resources implications

7.1 This report contains no direct human resources implications.

8.0 Corporate landlord implications

8.1 This report contains no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 There were no preceding background papers.

Internal audit plan for 2014/15

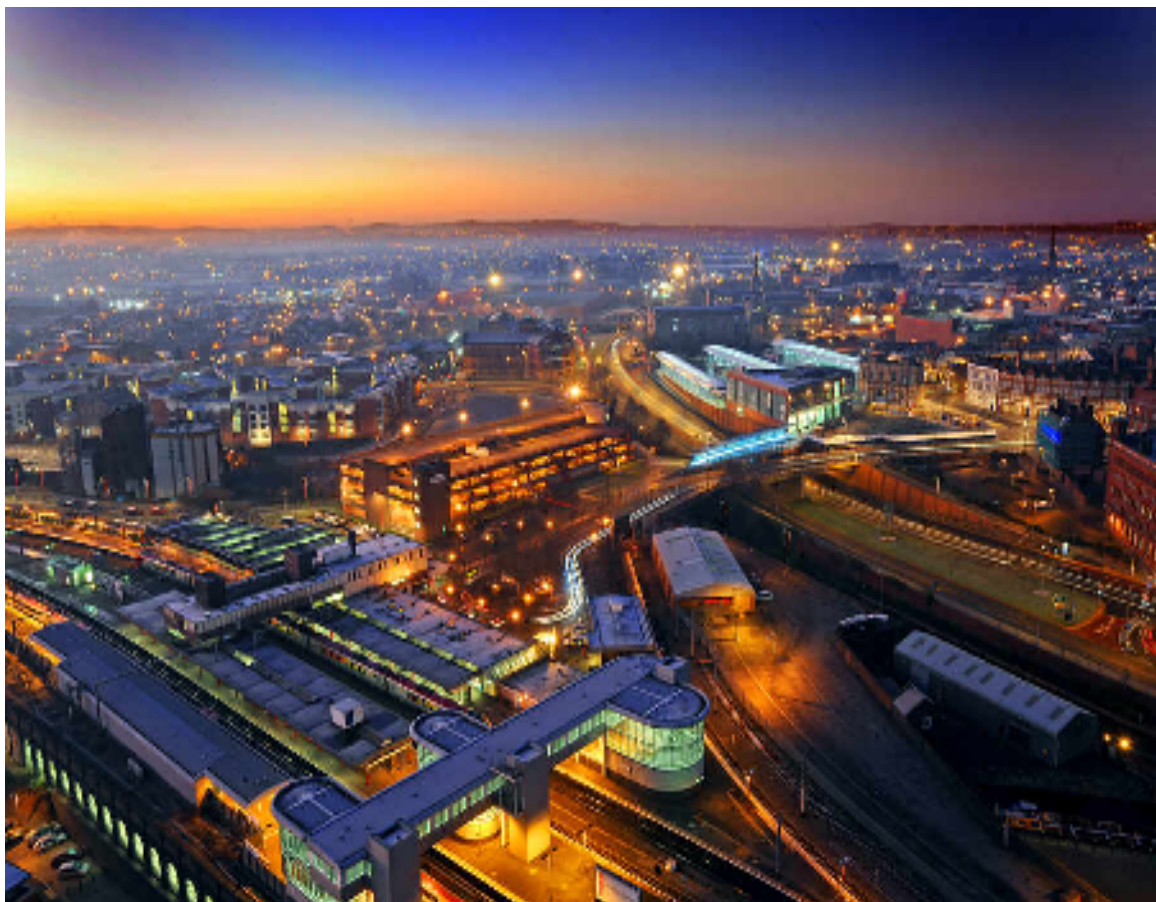


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A Quick guide to the audit planning process

Step 1- Audit universe/auditable areas

Identify the Audit Universe (i.e. a list of areas that may require auditing) using a variety of methods:

- Areas of risk identified by the Pension Fund as having the potential to impact upon its ability to deliver its objectives.
- Key Financial Systems work we undertake to assist the external auditors etc.
- Areas where we use auditors knowledge, management request and past experience etc.



Step 2 – Ranking

Score each auditable area as high, medium or low risk using the CIPFA scoring methodology: materiality/business impact/audit experience/risk/ potential for fraud



Step 3 – Three year cycle

List the medium and high risk auditable areas for the next three years. High risk areas will be audited annually, medium risks once in a three year cycle, while a watching brief will remain on the low risks.



Step 4 - Next years plan

List the areas that will be subject to an audit review in 2014/15 in the internal audit plan.

A 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 that the Pension Fund fulfils its overall purpose, achieves its intended outcomes for members 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 Pension Fund'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 Pension Fund and the reporting of financial management
- the performance management of the Pension Fund 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 Audit may be unable to give an assurance 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 Pension Fund's policies, processes and controls and the second being managers' own checks of this first line.

Internal Audit standards



The Internal Audit team comply with the standards as laid out in the new Public Sector Internal Audit Standards that came into effect on 1 April 2013.

1 Introduction

- 1.1 The purpose of internal audit is to provide the West Midlands Pension Fund with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Fund's agreed objectives. In order to provide this opinion, we are required to review annually the risk management and governance processes within the Fund. We also need to review on a cyclical basis, the operation of internal control systems within the Pension Fund. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.
- 1.2 There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The internal audit service at Wolverhampton City Council has an Internal Audit Charter which defines the activity, purpose, authority and responsibility of internal audit. This plan sits alongside the charter, and helps determine how the internal audit service will be developed.
- 1.3 The purpose of this document is to provide the Pension Fund with an internal audit plan, based upon an assessment of the Fund's audit needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The Assessment will be used to direct internal audit resources to those aspects of the Fund which are assessed as generating the greatest risk to the achievement of its objectives.

2 Assessing the effectiveness of risk management and governance

- 2.1 The effectiveness of risk management and governance will be reviewed annually, along with a review of the activities the Fund also undertake in this area. The opinion will be reflected in a separate report covering risk management and governance. The review will cover the elements of the risk analysis which we regard as essential for annual review in order to provide a positive, reasonable assurance to the Fund.

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. The annual reviews of risk management and governance will cover the control environment and risk

assessment elements, at a high level. The programme of work developed as the outcome of the exercise will cover the system level control activities.

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

4 Assessment of assurance needs methodology

- 4.1 Internal audit should encompass the whole internal control system and not be limited only to financial control systems, the scope of internal audit work should reflect the core objectives of the Pension Fund and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the Fund's objectives.
- 4.2 Activities that contribute significantly to the Fund's internal control system, and also to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks not to try and measure the level of risk in activities but to assign a relative risk value. The purpose of this approach is to enable the delivery of assurance to the Pension Fund over the reliability of its system of control in an effective and efficient manner.
- 4.3 We have undertaken the assessment using the following process:
- We identified the core objectives of the Fund and, where available, the specific key risks associated with the achievement of those objectives.
 - We then identified the auditable areas that impact significantly on the achievement of the control objectives.
 - We assigned risk values to the auditable areas, based on the evidence we obtained.
- 4.4 The audit plan is drawn out of the assessment of audit need. The proposed plan covers the 2014/15 financial year and is detailed at the end of this document.

5 The assessment of internal audit assurance needs

Identifying the Fund's core purpose and the associated risks

- 5.1 The main purpose of the Fund is:
- To provide a sustainable and affordable final salary pension to its members, both present and future;
 - To provide an effective service for the members and scheme employers of the West Midlands Metropolitan Authorities Pension Fund;
 - To invest the Fund's assets and achieve target investment returns;
 - To pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses and to receive payments in respect of contributions, transfer values and investment income;
 - To be a source of good practice and to be a top performing LGPS pension fund;
 - To consistently demonstrate excellent customer service and improve staff performance in all areas of business through staff development;
 - To be a good source of practical and technical information for interested parties.

5.2 The key risks to the Pension Fund, as identified through its risk management process are as follows:

- Robust quality controls are not applied when reviewing and updating Fund policies and processes for LGPS 2014;
- The Pension Administration Strategy (PAS) is not complied with by employers;
- The Fund breaches Information Security and Data Quality regulations;
- Pension benefits are calculated with inaccurate or incomplete data;
- Liabilities need to be orphaned across the Funds remaining employers in the event of an employer failing;
- Poor decisions made by Trustees result in an inappropriate asset allocation;
- Inability to settle trades or pay pensions on due date due to inadequate cash flow;
- The Fund publishes inaccurate financial information or bases decisions around inaccurate information;
- The Fund cannot continue to operate and deliver its priority services following a disaster or data loss scenario;
- Loss of external data providers impacts on Fund's ability to carry out work;
- Investment Strategy is inappropriate (not aligned with FSS of SIP);
- Pension Fund assets are not appropriately safeguarded;
- Inappropriate actuarial assumptions are used in the valuation process;
- Fund processes are subjected to fraud.
- Key Man - Failure to replace key officers who leave the Fund;
- Payments are delayed;
- Mismanagement of transition of assets / manager.

Identifying the “audit universe”

5.3 In order to undertake the assessment of assurance need, it is first necessary to define the audit universe for the Pension Fund. The audit universe describes all the systems, functions, operations and activities undertaken by the Fund. Given that the key risk to the Fund is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the Fund, as identified above, and the management objectives in section 5.1 above. These auditable areas include the control processes put in place to address the key risks. The auditable areas identified within the audit universe are set out towards the end of this document.

Assessing the risk of auditable areas

5.4 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.

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

- Risk
- Business Impact
- Materiality
- Audit Experience
- Potential for Fraud and Error

Deriving the level of risk from the risk values

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

6 Developing an internal audit plan

- 6.1 The internal audit plan is based on management's risk priorities, as set out in the Pension Fund's own risk analysis/assessment. The plan has been designed so as to, wherever possible, cover the key risks identified by such risk analysis.
- 6.2 In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable areas will be subject to audit. This ensures that key risk 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.

In the course of the period covered by this plan, the priority and frequency of audit work will be subject to amendment in order to recognise changes in the risk profile of the Fund.

Auditor's judgement has been applied in assessing the number of days required for each audit identified in the strategic cycle.

- 6.3 The assessment of assurance need's purpose is to:
- determine priorities and establish the most cost-effective means of achieving audit objectives;
 - assist in the direction and control of all audit work

7 Considerations required of the Pensions Committee

- Are the objectives and key risks identified consistent with those recognised by the Pension Fund?
- Does the audit universe identified include all those systems which would be expected to be subject to internal audit?
- Are the risk scores applied to the audit universe reasonable and reflect the Service as it is recognised by the Fund?
- Does the internal audit 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

It is estimated that approximately 90 internal audit days (including all fraud, assurance and contingency work) will be required to deliver the audit plan for 2014/15 as detailed at the end of this document.

Communication of results

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

Staffing

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

Quality assurance

All audit work undertaken is subject to robust quality assurance procedures as required by relevant (i.e. CIPFA, CIIA) professional standards. These arrangements are set out in the division's standards manual and require that all working papers and reports are subject to thorough review by professionally qualified accountancy (CCAB) staff.

Combined assurance

We work in conjunction with the Fund's External Auditors (PwC) in order 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.

West Midlands Pension Fund - Internal Audit Plan for the period 1 April 2014 to 31 March 2015

Auditable Area	Purpose	Risk Category
Governance		
Overall Governance and Risk Management	An annual review of aspects of the Fund's governance arrangements, based upon the CIPFA/SOLACE model. The review will also encompass risk management arrangements to ensure the Fund is adequately identifying, assessing and managing the risks it faces in achieving its objectives, including the continued development of a detailed assurance mapping process.	High
Finance		
Implementation of Agresso	To provide assurance regarding the controls in place for use of Agresso and compliance with procedures set down both in Wolverhampton City Council's constitution and by the Pension Fund.	High
Contributions (KFS)	A review of the key financial controls relating the calculation and collection of member contributions.	High
Accounting Records and Performance Measurement	To provide assurance over the accuracy of performance data compiled by reference to the input of data to the Investment accounting system and subsequently custodian records.	Medium
Settlement of Investment Transactions	To provide assurance over the completeness and accuracy of records maintained in respect of all investment transactions from decision through to settlement at the bank.	Medium
Investments		
Investment Income and Expenditure (KFS)	A review of the key financial controls in respect of income and expenditure in relation to investment transactions.	High
Administration		
Employer Covenants	To provide consultancy with regards to revised arrangements for obtaining covenants for newly admitted bodies to the Fund.	High
Administration of Member Records (KFS)	A review of the key financial controls relating to the administration of member records.	High
Benefit Calculations (KFS)	A review of the key financial controls relating to the calculation of benefit payments.	High

Auditable Area	Purpose	Risk Category
Payroll (KFS)	A review of the key financial controls relating to the administration of the Pensions payroll.	High
Changes to LGPS	To provide assurance regarding the correct implementation of changes required under LGPS 2014.	Medium
Early Retirement Costing and Recharges	To provide assurance over the timely and accurate recoupment of costs in respect of early retirements authorised by employing bodies.	Medium

On-going Business		
National Fraud Initiative (NFI)	In accordance with Audit Commission requirements we will lead on the NFI data matching exercise, including working with the successor body to the Audit Commission, the Cabinet Office.	-
Fraud investigations	The carrying out of investigations into areas of suspected or reported fraudulent activity across the Pension Fund.	-
Development and advice	Reviewing system developments on key controls and providing advice relating to systems which are not necessarily covered by audits originally scheduled for 2014/15.	-
Contingency	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.	-
Management	Day to day management of the internal audit service, quality control, client and External Audit liaison and preparation for, and attendance at various meetings.	-

(KFS) - key financial system reviews are undertaken working with the Fund's external auditors. Where appropriate, using guidance supplied by them, in order to enable them to place reliance upon the work of internal audit and reduce their workload according. All such reviews are deemed as high risk by their very nature.



Pensions Committee

25 June 2014

Report Title	LGPS Reform Consultation	
Originating service	Pension Services	
Accountable officer(s)	Geik Drever	Director of Pensions
	Tel	01902 55(2020)
	Email	Geik.drever@wolverhampton.gov.uk

Report to be/has been considered by

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Note the contents of the report and endorse the Fund's response to the Department of Communities and Local Government's (DCLG's) consultation on Local Government Pension Scheme (LGPS) reform.

1.0 Purpose

1.1 This report sets out the Fund's response to the DCLG's May 2014 consultation on LGPS reform.

2.0 Background

2.1 With assets of £178 billion as at 31 March 2013, the LGPS is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members. The Department for Communities and Local Government (DCLG) is responsible for the regulatory framework governing the Scheme in England and Wales.

2.2 In 2013, the Government ran a call for evidence on the structural reform of the Local Government Pension Scheme (LGPS). The call for evidence was developed around the primary objectives of reducing fund deficits and improving investment returns but in the light of the responses made, the Government has focussed on the scope for saving costs.

2.3 Following the call for evidence, the Shadow Scheme Advisory Board also reviewed the responses to the call for evidence and submitted recommendations to the Minister for Local Government. Furthermore, the Minister for Local Government and the Minister for the Cabinet Office commissioned additional analysis using the Contestable Policy Fund. Following a competitive tender process, Hymans Robertson were selected to establish the aggregate performance of the Scheme by asset class and to provide a detailed cost-benefit analysis of three potential options for reform:

- Establishing one common investment vehicle for all funds;
- Creating five to ten common investment vehicles for fund assets
- Merging the existing structure into five to ten funds.

3.0 The Consultation

3.1 On 1 May 2014 the Government launched a consultation in response to the call for evidence into the structure of the LGPS. This consultation represents the next step in reform of the LGPS and is the culmination of three sources of evidence, the public call for evidence into the future structure of the Scheme; the recommendations of the Shadow Scheme Advisory Board, based on the responses to that call for evidence; and the detailed cost-benefit analysis provided by Hymans Robertson.

3.2 The consultation sets out how the LGPS could achieve significant savings of £660 million a year. It outlines proposals to use common investment vehicles (CIVs) for both listed and alternative asset classes, to help funds achieve economies of scale and deliver savings. In particular, it proposes a move to low cost passive (index tracking) management of listed assets away from higher cost active (value added seeking) management.

- 3.3 The consultation sets out the government's preferred approach to reform, seeks views on the proposals and asks respondents to consider how if adopted, these reforms might be implemented most effectively.

The proposals set out in the consultation include:

- Establishing CIVs to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

4.0 The questions in the consultation

- 4.1 The five questions raised in the consultation are as follows –

Q1. Do you agree that CIVs would allow funds to achieve economies of scale and deliver cost savings for listed and alternative investments?

Q2. Do you agree with the proposal to keep decisions about asset allocation with local fund authorities?

Q3. How many CIVs should be established and which asset classes do you think should be represented in each of the listed asset and alternative asset CIVs?

Q4. What type of CIV would offer the most beneficial structure? What governance arrangements should be established?

Q5. Four options relating to the use of passive management in listed assets are put forward, ranging from compulsion to invest some or all assets in this way, to a comply or explain regime. Which of these offers best value for taxpayers, Scheme members and employers?

- 4.2 A copy of the DCLG's May 2014 consultation on LGPS reform can be found at www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

- 4.3 At the Pensions Committee's training session, Hymans Robertson will present on the DCLG consultation and we will present on our response. We will also make a present at our forthcoming employer summer briefing.

5.0 Summary of WMPF's Position and Response

5.1 As one of the largest LGPS funds, WMPF has substantial internal investment management resources. These are not available to all 89 LGPS funds in England and Wales. Further, WMPF deploys passive management of its listed assets with £3.6 billion so deployed. WMPF's views can be summarised as follows –

- LGPS internal investment management arrangements deliver good investment performance cost effectively as is evidenced in Hymans Robertson's report. They should be encouraged and supported as far as practicable;
- Decisions regarding asset allocation and portfolio objectives should be made locally;
- All forms of collaboration should be actively explored. There may be a role for a CIV or CIVs (ie in alternative investments) but we would not support the mandatory use of CIVs and the potential complexities associated in setting up such a vehicle should not be underestimated;
- The 'comply and explain' option would be best so far as passive management is concerned. WMPF believes that passive investment management has a crucial role to play in listed assets, but in conjunction with targeted active investment management. WMPF does not favour compulsion to invest passively (in whole or in part) as an optimal solution.

5.2 A copy of WMPF's draft response (with an accompanying covering letter) is set out in Appendix A. The Committee is requested to endorse the draft response and once finalised, the response will be sent to the DCLG ahead of the response deadline of 11 July 2014.

5.3 The Committee will be appraised of further developments both regarding the consultation and LGPS reform more widely.

6.0 Financial implications

6.1 This report contains no direct financial implications but the changes proposed in the paper could impact on both cost and investment return.

7.0 Legal implications

7.1 This report contains no direct legal implications.

8.0 Equalities implications

8.1 This report has no direct equal opportunities implications.

9.0 Environmental implications

9.1 This report has no direct environmental implications.

10.0 Human resources implications

10.1 The report contains no direct human resource implications.

11.0 Corporate landlord implications

11.1 The report contains no direct corporate landlord implications.

12.0 Schedule of background papers

12.1 There were no preceding background papers.

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DCLG RESPONSE RE LGPS REFORM – JULY 2014

Victoria Edwards
Department for Communities and Local Government
Zone 5/G6 Eland House
Bressenden Place
LONDON SW1E 5DU

Sent by email to : LGPSReform@communities.gsi.gov.uk

*July 2014

Dear Victoria

Consultation on the Local Government Pension Scheme : Opportunities for collaboration, cost savings and efficiencies

Further to the consultation issued on 1 May 2014 seeking feedback on the future of the Local Government Pension Scheme (LGPS), please find attached as requested, responses to the specific questions posed.

The attached response is on behalf of the West Midlands Pension Fund (WMPF), which provides pension services to over 260,000 current and former employees of the seven West Midlands district councils and over 400 participating employers. It is one of the largest LGPS funds in England and Wales, employing 115 FTE members of staff and as at 31 March 2014 had assets valued at £10.1 billion. WMPF has a substantial internal investment division, including a successful function dedicated to passive index tracking of developed listed equities markets, with some £2.6 billion under direct management.

Whilst the focus of the consultation is on the very important issues of collaboration, cost savings and efficiencies, it is essential not to lose sight of the primary objectives of last year's call for evidence on the structural reform of the LGPS, namely the reduction of fund deficits and the improvement of investment returns. The reduction of fund deficits in particular remains by far the most important issue facing the LGPS. In this context, the achievement of cost savings and efficiencies is just one of a number of components in addressing the primary objectives.

The WMPF Pensions Committee has endorsed the attached response. The Committee's view is that the WMPF would like to work with the government in LGPS collaboration and in the delivery of cost savings and efficiencies.

WMPF firmly believes that internal investment management arrangements deliver good investment performance cost effectively (as evidenced in Hymans Robertson's report). The deployment of passive investment in developed listed equities and gilts makes sense but WMPF does not favour its mandatory use, favouring instead a 'comply or explain' approach. WMPF is fully supportive of collaborative ventures involving LGPS funds and is open minded about the use of CIVs but would not support their mandatory use and would highlight the potential complexities in setting up such vehicles, particularly in alternative investments. We emphasise the attractions and advantages of other forms of collaboration, including National LGPS Frameworks, the Pensions Infrastructure Platform and Investing for Growth.

I hope that this response is a useful contribution to the consultation. Should you wish to discuss further any of the points covered in the attached response, please do not hesitate to contact me.

Yours sincerely

Geik Drever
Director of Pensions

DRAFT RESPONSE TO DCLG CONSULTATION RE LGPS, MAY 2014

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments ? Please explain and evidence your view.

The use of common investment vehicles (CIVs) could allow some funds, especially smaller ones, to achieve economies of scale and deliver savings. However, it should not be assumed that this will be the case in all circumstances, especially for larger funds with dedicated internal investment management resources. In Chapter 2 of the Hymans Robertson report on LGPS structure analysis, it is mentioned that internally managed funds have delivered good investment performance cost effectively (drawing on research provided by CEM).

In the case of WMPF specifically, there is a substantial internal investment team, within which there is a successful function dedicated to passive index tracking of developed quoted equities markets. The latter has been delivered at less than half of the cost than the estimates of the equivalent services as reported in Hymans Robertson's report. See Annex A for particulars of costs and performance. Note that the impact of transaction costs is reflected in the investment performance figures provided.

We believe that WMPF's ability to deliver a relatively cost effective index tracking service reflects its bespoke nature for a sizeable pool of assets (£2.6 billion under direct management as at 31 March 2014). External service providers need to have a substantial supporting infrastructure (to support business development and multiple clients) and to generate profits for shareholders. For WMPF, there are also no regulatory, set up and running costs associated with a CIV or a similar vehicle.

WMPF would be open to discussion regarding the provision of its service to other LGPS funds (whether via a CIV or other arrangements) but the regulatory, resourcing, risk and costing implications would need to be assessed to establish whether such an arrangement is worthwhile.

WMPF recognises the advantages of scale for the passive management of highly liquid investments such as quoted equities in developed markets and gilts (both conventional and index linked). In other areas, whilst some scale and resources are essential, the deployment and management of capital needs to be handled effectively, especially in less liquid assets and strategies. Scale per se does not necessarily lead to optimal investment outcomes.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local authorities ?

Yes. WMPF supports the key principle of local accountability. If other important decisions are made locally, it makes sense that asset allocation decisions are made locally, too.

Decisions on asset allocation need to be made in the context of fund objectives, cashflows, liabilities, contribution rates, deficits, deficit recovery plans, portfolio risks, employer covenant strength and other relevant factors.

Asset allocation decisions are by far the most important determinants of long term investment performance and risk – far more so than, say, the decision to appoint fund manager A or fund manager B for a given mandate.

If asset allocation decisions are made locally, it makes sense for decisions regarding portfolio objectives and portfolio construction to be made locally too, as these are crucial as well as integral to the overall investment process. These would include decisions on how much to invest passively and how much to invest actively in liquid assets. They would also include making decisions on whether or not to invest in alternative assets and if so, for what reason (s) and in which areas.

WMPF recognises the importance of effective governance and appropriate resourcing wherever decisions are made. It has a dedicated trustee training programme for all committee members and a substantial internal investment division supported by external advisers. Intuitively it makes sense that good governance leads to better outcomes and there is some evidence (for example in Dyck and Pomorski's paper 'Is bigger better? Size and performance in Pension Plan Management') that this is so, too. It also underlines WMPF's belief in having dedicated internal investment management resources to support committee members.

Q3. How many common investment vehicles should be established and which asset classes do you think should be represented in each of the listed asset and alternative common investment vehicles ?

WMPF is open minded about the use of CIVs and is in favour of other methods of collaboration (see below). At this stage we would not support mandatory use of CIVs. Nor would we wish to be prescriptive regarding the specific number of CIVs. We agree that funds of funds are expensive and do not support their extensive use.

When considering how many CIVs are established, it is important to recognise that in actively managed and less liquid areas, big is not necessarily better. CIVs should be

sized and structured so that capacity is managed carefully to ensure that investment objectives are delivered effectively.

Whilst the case for investing in alternative investments via a CIV or CIVs is intuitively strong, it is a more complex area than conventional liquid assets and the practical issues associated with successfully setting up such a vehicle should not be underestimated. For incoming investors, there would need to be clarity regarding investment objectives and terms. The liquidity and diversification characteristics would need to be considered, too.

In one important alternative asset class, infrastructure, WMPF is a founding member of the Pensions Infrastructure Platform (PIP) and is committed to supporting PIP along with certain other LGPS and corporate pension funds. This is a cost effective way of investing in infrastructure compared with alternative approaches.

In addition or as an alternative to investing via CIVs, consideration should be given also to other methods of collaboration. WMPF highlights the National LGPS Frameworks, which seek to reduce procurement costs and timescales as well as delivering cost effective solutions. Greater use of pooled funds specifically designed for LGPS funds and hosted by investment managers may also deliver meaningful cost savings quickly and simply. We believe it very likely that greater use of both options could deliver results more quickly than setting up CIVs.

WMPF is fully supportive of collaborative ventures involving other LGPS funds in order to achieve efficient and cost effective outcomes. In addition to PIP, WMPF is a founding member of the Investing for Growth initiative along with several other large LGPS funds. This initiative seeks to identify suitable investment opportunities that have a positive economic and social impact in the UK and its regions. WMPF would be very open to discussion on collaboration in other areas, too.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure ? What governance arrangements should be established ?

So far as CIVs specifically are concerned, the following characteristics are crucial –

- *Robust governance structure and arrangements (covered later in this section)
- *Appropriate for professional investors to pool assets
- *Capable of supporting a range of ring fenced sub funds
- *Flexible for different investment strategies
- *Cost efficient
- *Manageable capital considerations
- *Appropriately regulated

- *Assets held by an appropriate custodian
- *Able to be used as part of a master/feeder arrangement
- *Capable of offering a range of liquidity options for investors
- *Tax efficient with regard to both capital gains and other taxes
- *Access to dual tax treaties so that withholding taxes are minimised
- *Cost and tax efficient in specie transfer of assets into the vehicle

In this regard, regulated co-ownership tax transparent pension fund vehicles could be particularly appropriate. The CIV currently being set up by certain London Boroughs could be regarded as a valuable pilot. It may be prudent to defer the setting up of any new CIVs until after the London CIV is successfully up and running in order to benefit fully from the experience of creating this vehicle.

WMPF suggests that the associated governance arrangements should be robust and kept as simple and straight forward as possible. Key areas of focus should be on improving net returns (with due regard to risk), reducing / controlling costs, addressing conflicts of interest and facilitating decision making for the funds that invest in any CIVs.

In order to strengthen governance and oversight, it is suggested that any CIV should have an investment committee with membership drawn from fund officers and members with support from professional advisers.

Q5. In the light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance , which of the options set out above offers best value for taxpayers, Scheme members and employers ?

WMPF highlights its belief, as evidenced in Chapter 2 of Hymans Robertson's report on LGPS structure analysis, that internally managed funds can and do deliver good investment performance cost effectively. Accordingly, we think that this option offers best value.

On the issue of passive investment, with a total of £3.6 billion of its listed assets invested passively, WMPF believes that passive index tracking has a crucial role to play in the effective management of developed market listed equities and gilts (conventional and index linked). We have found that the successful deployment of significant funds with active fund managers is very difficult in some areas – large cap listed UK and US equities and gilts. Passive index tracking management in these areas is an effective, low cost way of deploying substantial amounts of capital.

At the same time, WMPF favours targeted active fund management in listed assets. In some areas we have had success in identifying and accessing active fund managers who have added value after fees and other costs. In global equities, the

Fund's active fund managers have generated added value of 1.2% per annum over the last three years. In emerging markets equities, we have recently put new fund management arrangements into place employing three active fund managers who we believe will add long term value whilst managing portfolios with significantly lower volatility than investing via a market capitalisation index in what is an intrinsically volatile asset class.

In some areas, we think that the deployment of passive index tracking is sub optimal. A passively managed allocation to corporate bonds tracking a market capitalisation benchmark would structurally expose investors to the more indebted and therefore intrinsically higher risk issuers. We would not support its deployment as an effective way of investing in this asset class.

WMPF firmly believes that both passive and active management options (including options that could be categorised as either, for instance 'smart beta') should be considered in the process of setting objectives for portfolios both individual and consolidated. Issues to consider include not only returns, costs and value for money (all crucially important) but also portfolio volatility, risks (for instance concentration risks) and overall portfolio construction.

Of the four options presented, WMPF favours the 'comply or explain' one as offering potentially the best value, as long as the process for so doing takes proper account of funds' specific investment objectives and genuinely assesses long term performance (recognising that over short term timescales, the most successful active managers can and do underperform).

We fully accept that rigour is needed in determining the decision to invest passively or actively in listed assets but do not believe that compulsion to invest passively (in whole or part) would be a solution to improve investment performance cost effectively. Accordingly, we do not favour the first two options proposed. The fourth option, which amounts to the status quo, is in our view insufficiently rigorous.

Summary

WMPF firmly supports appropriate measures to improve the efficiency and cost effectiveness of the LGPS. So far as the consultation is concerned, we consider that

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- LGPS internal investment management arrangements deliver good investment performance cost effectively as is evidenced in Hymans Robertson's report. They should be encouraged and supported as far as practicable ;

- Decisions regarding asset allocation and portfolio objectives should be made locally;
- All forms of collaboration should be actively explored. There may be a role for a CIV or CIVs (ie in alternative investments) but we would not support the mandatory use of CIVs and the potential complexities associated in setting up such a vehicle should not be underestimated;
- The 'comply or explain' option would be best so far as passive investment management is concerned. WMPF believes that passive investment management has a crucial role to play in listed assets, but in conjunction with targeted active investment management. WMPF does not favour compulsion to invest passively (in whole or part) as an optimal solution.

12 June 2014.

DRAFT

INDEX FUND PERFORMANCE TO 31 MARCH 2014

Portfolio	Inception Date	2013/14			2012/13			2011/12			2010/11		
		Portfolio %	Index %	Diff %	Portfolio %	Index %	Diff %	Portfolio %	Index %	Diff %	Portfolio %	Index %	Diff %
UK Equities (In-house)	30/09/2009	+9.0	+8.8	+0.2	+16.9	+16.8	+0.1	+1.6	+1.4	+0.2	+9.5	+8.7	+0.8
North America	30/09/2009	+10.3	+10.3	+0.0	+19.4	+19.3	+0.1	+6.8	+6.9	-0.1	+9.8	+9.6	+0.3
Europe ex UK	31/12/2009	+17.5	+17.3	+0.2	+18.6	+18.0	+0.6	-11.2	-11.4	+0.2	+7.3	+7.5	-0.1
Japan	30/09/2010	-1.5	-1.6	+0.1	+14.4	+14.3	+0.1	+1.2	+1.0	+0.2	-3.3	-3.0	-0.2
Pacific ex Japan	16/01/2013	-6.9	-6.6	-0.3	-	-	-	-	-	-	-	-	-

Portfolio	Inception Date	3 Year Annualised			4 Year Annualised		
		Portfolio %	Index %	Diff %	Portfolio %	Index %	Diff %
UK Equities (In-house)	30/09/2009	+9.0	+8.8	+0.2	+9.1	+8.8	+0.3
North America	30/09/2009	+12.1	+12.0	+0.0	+11.5	+11.4	+0.1
Europe ex UK	31/12/2009	+7.4	+7.0	+0.4	+7.4	+7.1	+0.2
Japan	30/09/2010	+4.5	+4.3	+0.1	-	-	-
Pacific ex Japan	16/01/2013	-	-	-	-	-	-

Direct costs relating to the management of these portfolios - 0.02% p.a.

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