



Pensions Committee

24 September 2014

Time 1.30 pm **Public Meeting?** YES **Type of meeting** Pensions
Venue Committee Room 3 - Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

Membership

Chair Cllr Bert Turner (Lab)
Vice-chair Cllr Lorna McGregor (Lab)

Labour

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

Conservative

Cllr Paul Singh
Cllr Zahid Shah

Liberal Democrat

Cllr Michael Heap

District Members

Cllr Muhammad Afzal (Birmingham City Council)
Cllr Damian Gannon (Coventry City Council)
Cllr Rachel Harris (Dudley Metropolitan Borough Council)
Cllr Steve Eling (Sandwell Metropolitan Borough Council)
Cllr Alan Rebeiro (Solihull Metropolitan Borough Council)
Cllr M Arif (Walsall Metropolitan Borough Council)

Trade union observers

Mr Malcolm Cantello
Mr Martin Clift
Mr Victor Silvester
Mr Ian Smith

Quorum for this meeting is five 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.moderngov.co.uk>
Email democratic.support@wolverhampton.gov.uk
Tel 01902 555043

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

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

Agenda

Part 1 – items open to the press and public

- | <i>Item No.</i> | <i>Title</i> |
|-----------------|--|
| 1 | Apologies for absence (if any) |
| 2 | Notification of Substitute Members (if any) |
| 3 | Declarations of Interests (if any) |
| 4 | Minutes (Pages 1 - 18)
(a) Pensions Committee – 25 June 2014
(For approval)

(b) Investment Advisory Sub Committee – 25 June 2014
(For approval)

(c) Pensions Joint Consultative Forum – 3 September 2014
(For information) |
| 5 | Matters arising
[To consider any matters arising from the minutes of the meeting of:

(a) Pensions Committee – 25 June 2014;

(b) Investment Advisory Sub Committee – 25 June 2014;

(c) Pensions Joint Consultative Forum – 3 September 2014] |
| 6 | Pensions administration report (Pages 19 - 36)
[To inform the Committee of the work undertaken by the Pensions Administration Service during the period 1 April 2014 to 30 June 2014] |
| 7 | Compliance monitoring (Pages 37 - 40)
[To receive a report on the findings of the quarterly Compliance Monitoring Programme together with any other compliance issues] |
| 8 | Local Government Pensions Scheme (LGPS) 2014 (Pages 41 - 44)
[To receive an update on the progress to date of the implementation of the LGPS 2014] |
| 9 | Service Plan monitoring (Pages 45 - 56)
[To receive an update to the Fund's financial and service plan monitoring] |
| 10 | Annual Reports and Accounts 2013/14 (Pages 57 - 182) |

[To receive the contents of the draft 2013/14 Report and Accounts for the West Midlands Pension Fund and to approve their publication on the Fund's website following review by the Fund's auditor, PwC]

- 11 **Strategic Investment Allocation Benchmark (SIAB) annual review** (Pages 183 - 202)
[To review the Fund's investment strategy and recommended changes to the Strategic Investment Allocation Benchmark]
- 12 **Active ownership activities - April 2014 to June 2014** (Pages 203 - 208)
[To receive details of the work undertaken by the Investments Team regarding voting and engagement activities, collectively known as "active ownership" activities between the period 1 April 2014 to 30 June 2014]
- 13 **Governance Reform 2014 - update** (Pages 209 - 242)
[To receive an update on the work undertaken on the governance reforms to date and to consider the next steps for implementation]
- 14 **Exclusion of the public and press**
[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 public and press**
- 15 **Investment portfolio valuation**
[To receive details of the Investment Portfolio Valuation as at 30 June 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)
- 16 **Responsible Investment Policy related activities - April 2014 - June 2014** (Pages 243 - 268)
[To receive details of the policy work undertaken by the Investment Team in connection with responsible investment activities between the period 1 April 2014 to 30 June 2014] Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
- 17 **Employer covenant update report** (Pages 269 - 278)
[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)
- 18 **Property Management Service Contract** (Pages 279 - 282)
[To receive an update on the progress and conclusion Information relating to the

of the procurement process for the appointment of an investment manager to manage the Fund's direct property portfolio]

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

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Meeting of the Pensions Committee Minutes - 25 June 2014

Attendance

Chair Cllr Bert Turner (Lab)
Vice Chair Cllr Lorna McGregor (Lab)

Members of the Committee (Wolverhampton CC)

Cllr Ian Brookfield
Cllr Val Evans
Cllr Michael Heap
Cllr Phil Page
Cllr Zahid Shah
Cllr Paul Singh
Cllr Tersaim Singh

Trade Union observers

Martin Clift (UNITE)
Victor Sylvester (UNITE)

District members

Cllr Mohammed Arif (Walsall MBC)
Cllr Rachel Harris (Dudley MBC)
Cllr Robert Hulland (Solihull MBC)
Cllr Damian Gannon (Coventry CC)

Employees

Jane Alexander
Mark Chaloner
Geik Drever
Peter Farrow
Amanda MacDonald
Mark Taylor
Simon Taylor
Carl Craney

Senior Auditor
Assistant Director – Investments
Director of Pensions
Head of Audit Services
Lead Auditor
Assistant Director – Finance
Interim Head of Pensions
Democratic Support Officer

Advisors

Graeme Johnson

Hymans Robertson LLP

Item No. *Title*

1 Apologies for absence (if any)

Apologies had been received from Councillor Muhammad Afzal (Birmingham City Council), Councillor Peter Bilson (Wolverhampton City Council), Councillor Jasbir Jaspal (Wolverhampton City Council), Councillor Alan Rebeiro (Solihull MBC) and Councillor Sandra Samuels (Wolverhampton City Council) and Malcolm Cantello (UNITE) and Ian Smith (UNITE – Retired Members).

Chair's Announcement

The Chair, Cllr Bert Turner, welcomed new members to the meeting. He informed the Committee that Malcolm Cantello, the representative of Unison, was unable to present at the meeting as he was attending the funeral of his mother.

2 Notification of Substitute Members

Councillor Robert Hulland attended the meeting as a substitute on behalf of Councillor Alan Rebeiro (Solihull MBC)

3 Declaration of Interests (if any)

Councillor Tersaim Singh (Wolverhampton City Council) declared a personal interest in Agenda Item No. 23 (Employer Covenant Update Report) insofar as it referred to Wolverhampton Consortium Network.

4 Minutes

(a) Pensions Committee – 26 March 2014

Resolved:

That the minutes of the meeting of the Pensions Committee held on 26 March 2014 be confirmed as a correct record and signed by the Chair.

(b) Investment Advisory Sub Committee – 26 March 2014

Resolved:

That the minutes of the meeting of the Investment Advisory Sub Committee held on 26 March 2014 be received.

5 Matters arising

There were no matters arising from the minutes of the meeting of the Pensions Committee held on 26 March 2014.

6 Exclusion of press and public

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>
22	Investment portfolio valuation	3
23	Employer covenant update report	3

7 **Investment portfolio valuation**

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

The Investment Portfolio Valuation – 31 March 2014 was presented and Councillors invited to submit any questions and / or comments to Geik Drever.

Resolved:

That the Investment portfolio Valuation – March 2014 be received.

8 **Employer covenant update report**

Simon Taylor presented a report on the monitoring of employer covenants by the Fund. He drew particular attention to and responded to Councillors queries on the following issues:

- “Trojan Horse” schools;
- Black Business in Birmingham;
- Coventry Solihull and Warwickshire Partnership Ltd;
- Wolverhampton Network Consortium;
- Mitie Property Services (UK) Ltd;
- Alliance in Partnership (King Edward VI Grammar School)

Resolved:

That the report and the associated implications be received and noted.

9 **Re-admission of press and public**

Resolved:

That the public and press be re-admitted to the meeting

Part 1 – items open to the public and press

10 **Appointment of Sub Committee and Panel and dates of meetings 2014/15**

Resolved:

(a) That the following Councillors be appointed to serve on the Investment Advisory Sub Committee for the ensuing municipal year:

Councillor Bert Turner (Chair)
Councillor Lorna McGregor (Vice Chair)
Councillor Peter Bilson (Wolverhampton City Council)
Councillor Tersaim Singh (Wolverhampton City Council)
Councillor Rachel Harris (Dudley Metropolitan Borough Council)
Councillor Damian Gannon (Coventry City Council)
Councillor Steve Eling (Sandwell Metropolitan Borough Council)
Councillor Alan Rebeiro (Solihull Metropolitan Borough Council)
Councillor Mohammed Arif (Walsall Metropolitan Borough Council)
Councillor Muhammad Afzal (Birmingham City Council) together with Martin Clift (UNITE), Ian Smith (UNITE – Retired Members), Victor Silvester (UNITE) and Malcolm Cantello (UNISON) ;

(b) That the following Councillors be appointed to serve on the Pensions Joint Consultative Forum for the ensuing municipal year:

Councillor Bert Turner (Chair)
Councillor Lorna McGregor (Vice Chair)
Councillor Peter Bilson (Wolverhampton City Council)
Councillor Ian Brookfield (Wolverhampton City Council)
Councillor Philip Page (Wolverhampton City Council)
Councillor Tersaim Singh (Wolverhampton City Council)
Councillor Rachel Harris (Dudley Metropolitan Borough Council)
Councillor Damian Gannon (Coventry City Council)
Councillor Steve Eling (Sandwell Metropolitan Borough Council)
Councillor Alan Rebeiro (Solihull Metropolitan Borough Council)
Councillor Mohammed Arif (Walsall Metropolitan Borough Council)
Councillor Muhammad Afzal (Birmingham City Council) together with Martin Clift (UNITE), Ian Smith (UNITE – Retired Members), Victor Silvester (UNITE) and Malcolm Cantello (UNISON);

(c) That during the ensuing municipal year meetings of the Pensions Committee be held on Wednesdays at 1:30 p.m. on the following dates:

24 September 2014;
10 December 2014;
18 March 2015;

(d) That during the ensuing municipal year meetings of the Investment Advisory Sub Committee be held on Wednesdays at 10:00 a.m. on the following dates:

24 September 2014;
10 December 2014;
18 March 2015;

(e) That during the ensuing municipal year meetings of the Pensions Joint Consultative Forum be held on Wednesdays at 1:30 p.m. on the following dates:

3 September 2014;
4 March 2015;

(f) that the various Trade Unions be requested to confirm the nominations of representatives to serve on the Pensions Joint Consultative Forum.

11 **Pensions administration report**

Simon Taylor presented the pension administration report for the period of 1 January 2014 to 31 March 2014.

Resolved:

1. To agree to the admission of the undermentioned as participating employers:
Alliance in Partnership Ltd. (Rounds Green Primary School);
Bespoke Catering Ltd. (Westwood Academy);
Churchill Contract Services (James Brindley School);

2. That the transfer of data to the Greater Manchester Pension Fund (GMPF) as part of the National Probation Service programme be approved.

12 **Compliance monitoring**

Geik Drever presented a report on the findings of the quarterly Compliance Monitoring Programme together with any other compliance issues. She drew to the attention of the Committee that seven requests for information under the Freedom of Information Act, 2000 and one request for personal information under the Data Protection Act, 1998 had been dealt and the time consuming nature of dealing with such requests. No compliance issues had arisen during the period under consideration.

Resolved:

That the report be received and noted.

13 **Draft final accounts and outturn**

Geik Drever presented a report on the 2013/14 Statement of Accounts operating outturn and service planning for the West Midlands Pension Fund and which provided an update to the Fund's financial and business plan monitoring. She explained that the Statement of Accounts was in the process of being finalised and would be available shortly.

Resolved:

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

14 Shareholder activity

Mark Chaloner presented a report which detailed shareholder activity during the period 1 January 2014 to 31 March 2014.

Resolved:

1. That the report, in particular the way the Fund was handling a number of current issues related to corporate governance and responsible investing be noted;
2. That the Fund's voting activity for the three months ending 31 March 2014 be noted;
3. That the issues discussed by the Local Authority Pension Fund Forum (LAPFF) as detailed in the minutes of the meeting of the Business meeting held on 25 March 2014 (CGA Appendix A) as appended to the report be noted;
4. That the copies of the Winter Newsletter (CGA Appendix B) and the Quarterly Engagement Report (CGA Appendix C) as appended to the report be noted;
5. That the existing engagement policy be adhered to and no exclusion of companies on purely ethical criteria as a matter of policy be confirmed.

15 Local Government Pension Scheme (LGPS) 2014

Geik Drever presented a report which provided the Committee with an update on the progress to date of the implementation of the Local Government Pension Scheme (LGPS) 2014 following the changes to the regulations in March 2014. She reported that the earliest that the system would be in place was likely to be mid to late July with it becoming fully operational by 1 August 2014.

Resolved:

That the activity and progress to date of the implementation of the LGPS 2014 following the finalisation of the regulations in March 2014 be noted.

16 Governance Reform 2014

Geik Drever presented a report which outlined the major implications and the requirements for changes to the Governance structure within the Local Government Pension Funds brought about by the Public Service Pensions Act 2013 and associated Regulations. The report provided options for the future governance structure and outlined the proposal for consultation with employers and trade unions going forward. The report suggested the establishment of a Governance Review Working Party with delegated responsibility to consider the proposals, their advantages and disadvantages and to liaise with the Council in making recommendations as to the structure of the Fund. She invited Councillors and Trade Union representatives to intimate their interest to her in sitting on the proposed Working Party.

Resolved:

1. That the report be received and noted;

2. That a Governance Review Working Party be established comprised of members of the Committee together with Trade Union representatives and that members of the Committee and Trade Union representatives intimate their interest to Geik Drever;

That the Head of Governance (Rachel Howe) be granted delegated authority to manage the Working Party going forwards;

4. That recommendations from the Working Party be considered at the next meeting of the Committee.

17 **Trustee training**

Geik Drever reminded the Committee that the Pension Fund Trustee Training Policy had been approved in November 2012 and as part of that Policy it had been agreed that training activity undertaken would be recorded and reported to the Committee. She presented a report which summarised the training activity for the period ending 31 March 2014, together with the training record for 2013/14 and the provisional training plan for 2014/15. The Chair, Councillor Bert Turner, emphasised the importance of Councillors attending the relevant training sessions.

Councillor Ian Brookfield reported that he sat on a different Pension Scheme and enquired as to whether training accrued as a result thereof was transferable. Geik Drever confirmed this to be the case.

Resolved:

1. That the training record for the year 2013/14 be noted;
2. That the provisional training plan for 2014/15 be noted

18 **Trustee update report**

Geik Drever presented a report which provided an update for existing and all new Trustees to the Pensions Committee. The report provided a brief outline of 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. The report also detailed information for all new Trustees to the Pensions Committee and provided an update to existing Trustees on the proposals for governance reform and the clarification of training requirements. She reminded the Committee that those appointed to or who sat on the Committee were referred to as "Trustees" whilst those in receipt of a pension were referred to as "Members".

Resolved:

1. That the report be received and noted;
2. That the changes due to be implemented over the coming year be noted.

19 **Update of Fund strategy and policy statements**

Geik Drever presented a report which provided an update on the changes and updates required to the Fund's Strategy and Policy Statements and which detailed the reasons for those changes.

Resolved;

1. That the proposed amendments to the Fund's Strategy and Policy Statements be approved;
2. That the discontinuance of the Investment Strategy Statement for the reasons detailed in the report be confirmed;
3. That the report be received and noted.

20 Investment policy and performance report

Mark Chaloner presented a report which outlined 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.

Resolved:

1. That the Investment Advisory Sub Committee's decision to approve proposals for modifications to the strategic risk as detailed in section 4.0 of the report, which would lead to an increase in the ranges for equities (to 50 – 70% of the Fund (from 45 – 65 %) and to a lowering of rangers for alternative investments (to 15 – 25 % from 20 – 30 %) with effect from 1 July 2014 be endorsed;
2. That the Fund's investment policy, investment strategy and investment returns for the year to 31 March 2014 be noted.

21 2014 budget and the impact for pensions

Geik Drever presented a report which outlined the key 2014 chancellor's budget changes impacting on pension schemes and in particular the Local Government Pension Scheme.

Resolved:

That the report be received and noted.

22 Administering authority policy discretions

Simon Taylor presented a report which detailed the proposed Administering Authority Policy Discretions. If approved the discretions would be formatted in line with Fund documentation and published on the Fund's website.

Resolved:

That the Administering Authority Policy Discretions as detailed in the report be approved and published on the Fund's website following formatting in line with Fund documentation.

23 West Midlands Pension Fund Internal Audit plan 2014/15

Peter Farrow presented the Internal Audit Plan for the West Midlands Pension Fund for 2014/15 and undertook to submit regular progress reports to the Committee.

Resolved:

That the 2014/15 Internal Audit plan for the West Midlands Pension Fund be approved.

24 **Local Government Pension Scheme (LGPS) reform consultation**

Geik Drever presented a report which detailed the Fund's response to the Department for Communities and Local Government (DCLG) May 2014 consultation on LGPS reform. The Committee received presentations from Graeme Johnston and Mark Chaloner on the consultation. Copies of the presentations were circulated at the meeting. Geik Drever, Graeme Johnston and Mark Chaloner in turn responded to a number of questions raised by Councillors.

Resolved:

That the report be received and noted and the Fund's draft response to the Department for Communities and Local Government (DCLG's) consultation on Local Government Pension Scheme (LGPS) reform be endorsed but with further wording being added to the covering letter regarding the tackling of deficits.

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Meeting of the Investment Advisory Sub-Committee Minutes - 25 June 2014

Attendance

Chair Cllr Bert Turner
Vice Chair Cllr Lorna McGregor

Members of the Sub Committee (Wolverhampton CC)

Cllr Tersaim Singh

Trade Union observers

Victor Silvester (UNITE)

District Members

Cllr Mohammad Arif (Walsall MBC)
Cllr Rachel Harris (Dudley MBC)
Cllr Damian Gannon (Coventry City Council)

Advisors

John Fender – John Fender Associates
Graeme Johnston – Hymans Robertson LLP

Employees

Mark Chaloner – Assistant Director – Investments
Geik Drever – Director of Pensions
Mark Taylor – Assistant Director – Finance
Carl Craney – Democratic Support Officer

Item No. Title

1 Apologies for absence (if any)

Apologies for absence had been received from Councillor Muhammed Afzal (Birmingham City Council), Councillor Peter Bilson (Wolverhampton City Council), Councillor Robert Hulland (Solihull MBC), Councillor Alan Rebeiro (Solihull MBC), Malcolm Cantello (UNISON) and Ian Smith (UNITE – Retired Members).

2 Substitute members

No substitute Members had been appointed for the meeting.

3 Declarations of interest (if any)

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

4 Minutes of last meeting

Resolved:

That the minutes of the meeting held on 26 March 2014 be confirmed 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 26 March 2014.

6 Exclusion of the press and public

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:

Item No.	Title	Applicable paragraph
7	West Midlands Pension Fund (WMPF) Investment Activity – 1 January 2014 – 31 March 2014	3
8	Investment Management Activity – 1 January 2014 – 31 March 2014	3
9	Economic and Market Update – March 2014	3
10	Strategic Investment Allocation Benchmark (SIAB) – Update review	3

11	Investment Strategy Review	3
12	Pensions Infrastructure Platform (PIP) – Update	3

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

7 West Midlands Pensions Fund (WMPF) Investment Activity - 1 January 2014 - 31 March 2014

Mark Chaloner presented a report on the performance and investment activity of the Fund for 1 January 2014 – 31 March 2014 and all transactions together with the position of each portfolio at the end of the reporting period.

Resolved:

That the performance and investment activity for the quarter ended 31 March 2014 be noted.

8 Investment Management Activity - 1 January 2014 - 31 March 2015

Details of the Investment Management Activity between 1 January 2014 – 31 March 2014 were made available for consideration.

Resolved:

That the Investment Management Activity 1 January 2014 – 31 March 2014 be received and any matters arising therefrom be referred to the Director of Pensions for response.

9 Economic and Market Update - March 2014

Mark Chaloner introduced and Graeme Johnson presented a report which updated the Sub Committee on conditions in the global economy and investment markets.

Resolved:

That the global and economic report prepared by the Fund's advisor, Hymans Robertson LLP be received and noted.

10 Strategic Investment Allocation Benchmark (SIAB) - Update review

Geik Drever presented a report which provided an update on recent activity relating to the Strategic Investment Allocation Benchmark (SIAB) and its implementation.

Resolved:

That the report be received and noted.

11 Investment Strategy Review

Geik Drever presented a report which invited the Sub Committee to review the Fund's investment strategy and its appropriateness following the 2013 actuarial review. Graeme Johnston made a presentation on this subject and responded to questions from Councillors and Geik Drever on its contents.

Resolved:

1. that in the light of findings of the review, the Fund continues to deploy its current return seeking investment strategy;
2. That the funding position be monitored and further consideration be given to moving to a lower risk strategy should there be a notable improvement in the funding position;
3. That consideration be given to setting up specific investment strategies for employers whose risk profiles were materially different from that of the main Fund;
4. That the investment strategy review undertaken by Hymans Robertson be noted.

12 **Pensions Infrastructure Platform (PIP) - Update**

Geik Drever presented a report which updated the Sub Committee on progress with the Pensions Infrastructure Platform (PIP) and which outlined changes required to the Fund's position in order to enable continued participation with the project.

Resolved:

That the deadline to support the build stage of the PIP to 31 December 2014, to allow the criteria of six original founding investors required to support the build out to be changed to a minimum of five and enable new founding investors to be included within this group of five, be approved.



Pensions Joint Consultative Forum

Minutes - 3 September 2014

Attendance

Members of the Pensions Joint Consultative Forum

Members of the Committee (Wolverhampton)

Cllr Bert Turner (Chair)
Cllr Peter Bilson
Cllr Lorna McGregor (Vice Chair)
Cllr Tersaim Singh

Trade union observers

Malcolm Cantello (UNISON)
Martin Clift (UNITE)
Victor Silvester (UNITE)
Ian Smith (UNITE)

District members

Cllr Rachel Harris (Dudley Metropolitan Borough Council)
Cllr Alan Rebeiro (Solihull Metropolitan Borough Council)

Employees

Leanne Clements	Responsible Investment Officer
Geik Drever	Director of Pensions
Sandra Hevican	Assessor - Revenues & Benefits
Rachel Howe	Head of Governance - Pensions Services
Linda Banbury	Democratic Support Officer

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence (if any)**
An apology for absence was submitted on behalf Councillor Steve Eling.
- 2 Notification of substitute members (if any)**
Councillor Sandra Hevican attended as a substitute member for Councillor Steve Eling.
- 3 Declarations of interest (if any)**
There were no declarations of interest.
- 4 Minutes of the previous meeting (3 March 2014)**
Resolved:
That the minutes of the meeting held on 3 March 2014 be approved as a correct record.

5 **Matters arising**

There were no matters arising from the previous meeting.

6 **Pensions administration report - 1 January 2014 to 30 June 2014**

The report advised the Forum of the work undertaken by Pensions Administration Services and other operational matters during the period. The report included information related to the following:

- Membership data
- Workflow statistics
- Pension liberation fraud
- Employer membership data
- Customer services
- IDRP (Internal Dispute Resolution Procedure) casework
- Death grant
- Workload statistics
- Applications for admission body status
- Pensions in payment
- Communications and marketing activity (presentations, road shows, web portal)

Some of the dates in the appendices to the report had not printed correctly and she undertook to rectify this for the next quarterly report.

Resolved:

That the report be received.

7 **Governance reform**

A report was presented, which outlined the changes in governance structures of public service pension funds and the proposals for reform within the west Midlands Pension Fund. In addition, presentation slides were circulated in regard to the proposed governance structure and constitution of the pension Board. It was noted that final government regulations and guidance were still awaited. The Joint Consultative Forum would be replaced by the Pension Board from 1 April 2015. Although numbers of councillors would be reduced on the Pensions Committee, two of those not on the Committee would sit on the Board with a view to keeping a knowledge base. It was noted that the Pensions Committee would consider a further report on this issue at their next meeting.

Resolved:

That the report be received.

8 **Responsible investment activities - 1 January 2014 to 31 March 2014**

A report was presented, which informed the Forum of work undertaken by the Investment Team regarding their responsible investment activities between the 1 January and 31 March 2014, including information on the following:

- The Fund's Socially Responsible Investment Statement

- Pension Committee's decision to adhere to its engagement policy and to not adopt exclusion of companies on purely ethical criteria as a matter of policy.
- The Fund's voting activity for the three months ending 31 March 2014.
- The issues discussed by the Local Authority Pension Fund Forum (LAPFF) on 25 March 2014.

Responding to a question, the Director of Pensions undertook to provide feedback from a recent engagement on a company.

Resolved:

That the report be received.

- 9 **Local Government Pension Scheme (LGPS) 2014**
A report was presented, which provided the Forum with an update on the progress to date of the implementation of the LGPS 2014.

Resolved:

That the report be received.

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Pensions Committee

24 September 2014

Report Title	Pension administration report from 1 April 2014 to 30 June 2014	
Originating service	Pension Services	
Accountable employee(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	Geik Drever Tel Email	Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the write off policy decisions.

Recommendations for noting:

The committee is asked to note:

1. Note the applications approved by the Director of Pensions, the Chair and Vice Chair of Pensions Committee for admission to the West Midlands Pension Fund.
2. The proposed transfer to the Greater Manchester Pension Fund in respect of the National Probation Service pensioner members.

1. Purpose

- 1.1 To inform Committee of the work undertaken by the Pensions Administration Services during the period 1 April 2014 – 30 June 2014.

2. Background

The Fund provides a pension administration service to its stakeholders, which covers employer and member services, benefit operations and systems/technical. A report is provided to Committee on a quarterly basis to cover the performance of these functions during that period.

3. Scheme Activity

3.1 Membership data

The number of scheme members in the Fund in all three categories stands at 271,694 with an overall increase since 31 December 2013 of 4,362. Of the active membership of 100,212, 45% are full-time and 55% part-time, which is a reflection of the flexible working arrangements amongst employers. The long-term trend over a 12 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.

3.2 Workflow statistics

The process analysis statistics show details of overall workflow within the Pensions Administration Service during the period 1 April 2014 – 30 June 2014 (Appendix B).

During the period covered by this report 24,763 administrative processes were commenced and 22,384 completed. On 30 June 2014 there were 9,553 items of work outstanding. Of this 2,498 items were in pending as a result of information awaited from a third party e.g. scheme members, employers or transferring authorities. Within pension administration, 7,055 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).

Performance statistics have been influenced by the delay in the 2014 Pension Regulations and the ability to process post April 2014 work. To help support efficient working the Operations Team has begun processing new joiners by a bulk data import process. This work is in the initial stages with issues and formats being resolved with employers involved and all employers will then go live using this service from 1 September 2014 which will release further capacity for other work processing.

Operational resources have also been utilised to process the annual returns exercise and cleanse and query employer data in readiness to issue Annual Benefit Statements.

3.3 Pension Scams

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

3.4 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 8 new organisations being admitted to the Fund during the period 1 April 2014 – 30 June 2014. The current number of employers as at 30 June 2014 is 432. The level of ongoing work being processed at the end of the period is as follows:-

- 55 admission agreements
- 36 academies
- 19 employer terminations

3.5 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 June due to the delivery of Deferred Benefit Statements. We continue to aim to provide a high quality response rate at first point of contact for telephone calls and pension fund enquiry emails.

Overall items scanned have remained fairly consistent with the previous years. The average % indexing error rate is below 0.2%. The Fund is working towards increasing exchange of data via electronic means and progress has been made to move towards their 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)

4. IDRP (Internal Dispute Resolution Procedure) casework

4.1 So far in the 2014/2015 financial year four cases have been received. One case has been dismissed and three cases are in progress.

The one case dismissed related to the following pension issues:

- Dismissed in relation to the exercise of employer discretion on the early payment of deferred benefits.

5. Death grant

5.1 In this financial year four cases have been referred to the Legal Department for consideration. These cases are ongoing.

6. Application for admission body status

6.1 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.

6.2 The table below lists the applications received for admission to the West Midlands Pension Fund which have been approved by the Director of Pensions, the Chair and Vice Chair and Pensions Committee.

Employer name	Guarantee Status (Agreement)	No of employees (Scheme members)	Status
ABM Catering Ltd (Aldermoor Primary)	Coventry City Council	1(1)	Approved
ABM Catering Ltd (Henley Green Primary)	Coventry City Council	2(2)	Approved
ABM Catering Ltd (Roots Consortium)	Coventry City Council	6(6)	Approved
Action Indoor Sports Birmingham CIC Ltd	Birmingham City Council	3 (3)	Approved
Alliance in Partnership Ltd (Rounds Green Primary School)	Sandwell Metropolitan Borough Council	1(1)	Approved
Aspens Services Ltd (St John Wall Catholic School)	Birmingham City Council	4(4)	Approved
Aspens Services Ltd (Aldridge School)	Aldridge School	9(9)	Approved
Bespoke Cleaning Ltd (Westwood Academy)	Westwood Academy	2(2)	Approved
Black Country Housing Group Ltd	Dudley Metropolitan Borough Council	27(27)	Approved
Catering Academy Ltd (John Gulson)	Coventry City Council	4(4)	Approved
Churchill Contract Services (James Brindley School)	Birmingham City Council	1(1)	Approved
Civica UK Ltd (Ark Schools)	Ark Schools	5(5)	Approved
KCLS (Coventry)	Coventry City Council	1(1)	Approved
KCLS (Alderbrook School)	Alderbrook School	9(9)	Approved
Ridge Crest Cleaning Trust	City of Wolverhampton Academy	13(13)	Approved
Taylor Shaw (Brownhills)	Walsall Metropolitan	2(2)	Approved

High School)	Borough Council		
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7. Pensions in payment

- 7.1 The gross annual value of pensions in payment to June 2014 was £418.8m, of which £18.5m (£8.9m for pensions increase and £9.6m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.
- 7.2 Monthly payroll details were:

Month	Number	Value £
April 2014	73,254	30,330,569.40
May 2014	73,422	30,700,439.30
June 2014	79,662	31,580,284.82

The June figures include pensioners paid on a quarterly basis.

8. Write off policy decisions

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

Individual Value	Number	Total
Less than £50	3	61.75
£50 - £100	10	724.84
£100 - £500	14	3,221.77
Over £500	6	10,869.23
TOTAL	33	14,877.59

- 8.2 Write on analysis

Individual Value	Number	Total
Less than £50	4	73.40
£50 - £100	1	58.81
£100 - £500	0	0.00
Over £500	0	0.00
TOTAL	5	132.21

9. Communications & marketing activity

9.1 Presentations

During the period Fund officers have continued to deliver presentations upon request from employers. The team will provide support on any subjects that are requested by an employer for their employees, however, the emphasis during this reporting period has been on the changes to the scheme with the implementation of LGPS 2014. A total of 57 presentations were delivered to 1,362 attendees.

The presentations were held at 33 different employers, including the district councils, universities, schools/academies and other admitted bodies.

Further support has also been provided to members either through drop in sessions or scheduled one to one support sessions. In total, support was offered to 120 members on a one to one basis.

9.2 Roadshows

The biennial member roadshows were held in June, with eight Roadshows held at each of the district councils, with two being at Birmingham City Council. In total, there were 1,007 visitors to the events, an average of over 125 a day.

3 June	Wolverhampton	101
4 June	Dudley	117
5 June	Solihull	103
10 June	Sandwell	156
11 June	Birmingham (Lifford)	176
12 June	Birmingham (Woodcock)	183
17 June	Coventry	101
18 June	Walsall	70

9.3 Web Portal

Work is continuing to increase awareness of the web portal facility for members and employers. There are currently 14,845 members registered to use the web-portal facility. As at 30 June 2014 there are 267 employer accounts representing approximately 93 individual organisations.

10. Transfer of Staffordshire and West Midlands Probation Trust (SWMPT)

- 10.1 As reported at the previous Committee meeting on 25 June 2014, 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. The preferred LGPS Fund for the administration of this service is the Greater Manchester Pension Fund (GMPF)
- 10.2 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 was to be put back by two months to 1 June 2014.
- 10.3 The Fund worked closely with the GMPF and their software supplier to transfer all the Probation active and deferred members in June. Following this a timetable for the transfer of the Probation pensioner members was agreed setting a transfer date for November. During the interim period, the Fund will continue to administer the payroll and

administration records of these members and GMPF will reimburse the Fund for the costs incurred.

- 10.4 The actual asset transfer from the Fund to GMPF is governed by a statutory instrument as outlined by the Government Actuary Department (GAD) and this is reported in another item on this Committees agenda.

11. Financial implications

- 11.1 The report contains financial information which should be noted.

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.

12. Legal implications

- 12.1 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.

13. Equalities implications

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

14. Environmental implications

- 14.1 The report contains no direct environmental implications.

15. Human resources implications

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

16. Corporate landlord implications

- 16.1 The report contains no direct corporate landlord implications.

17. Schedule of background papers

- 17.1 Pensions Committee 25 June 2014 – Pensions Administration report

18. Schedule of appendices

18.1 Appendix A: Overall membership numbers

18.2 Appendix B: Process analysis

18.3 Appendix C: Detailed process analysis

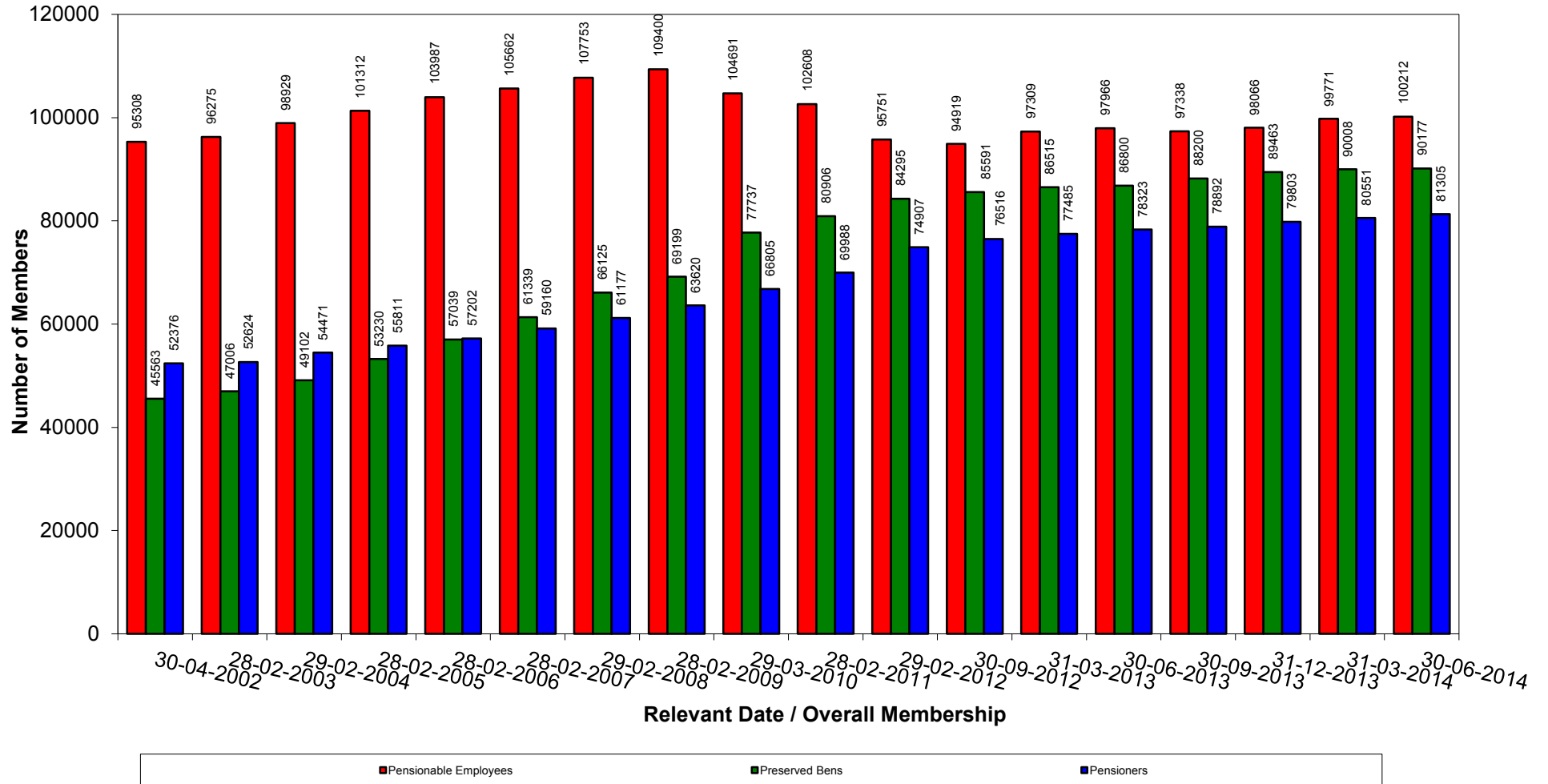
18.4 Appendix D: Customer service statistics

18.5 Appendix E: Data quality statistics

West Midlands Pension Fund
2014/15

Overall Membership April 2002 to June 2014

Page 27

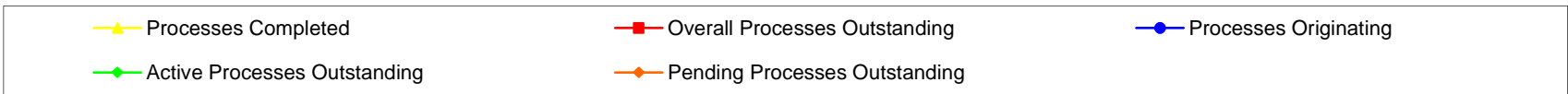
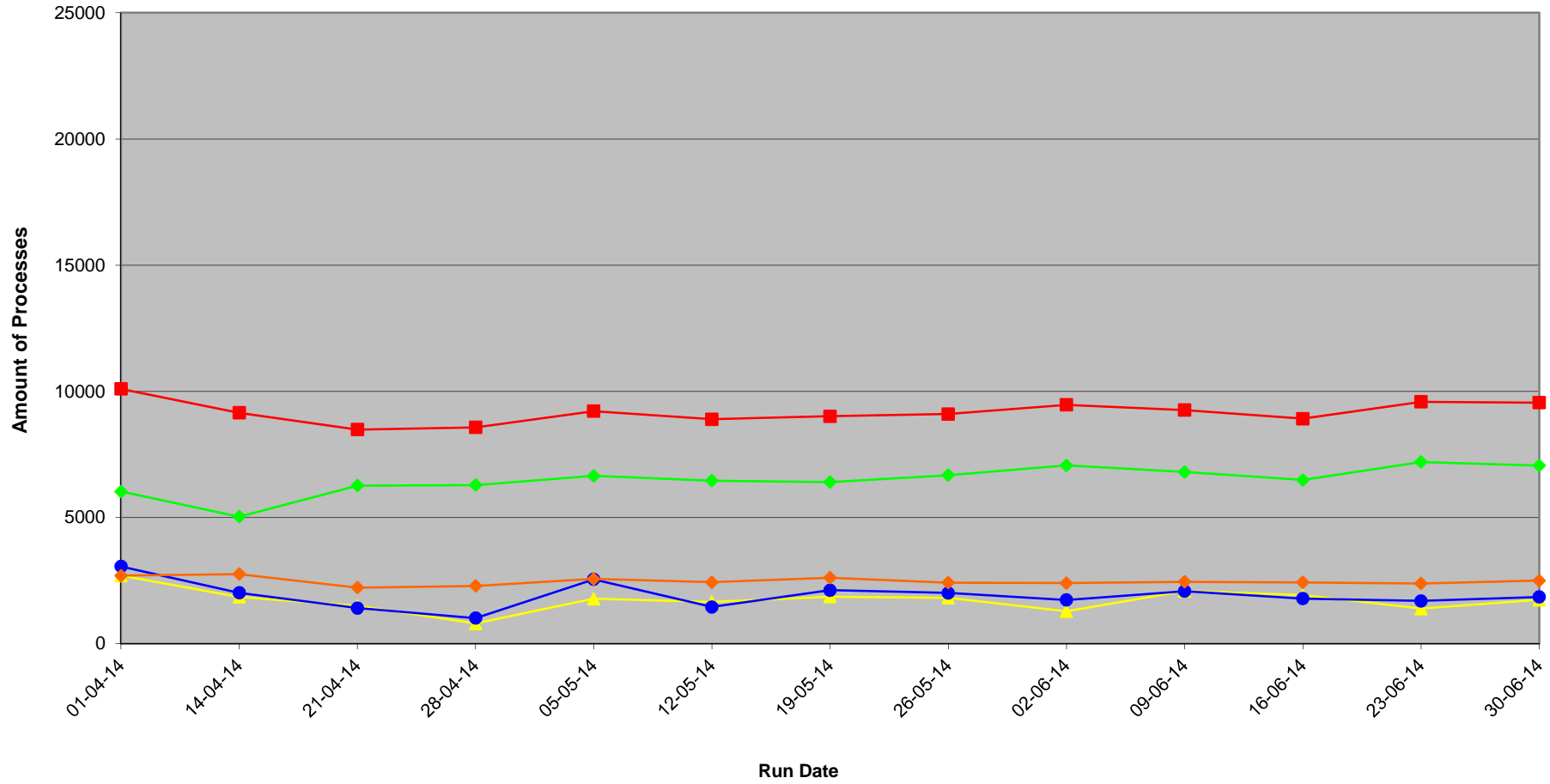


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West Midlands Pension Fund
2014/15

Process Analysis 1 April 2014 to 30 June 2014

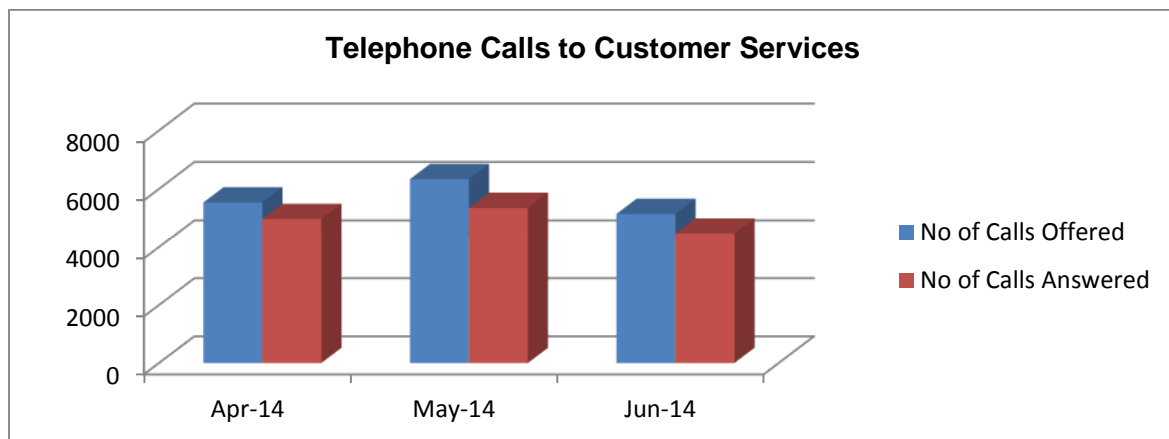
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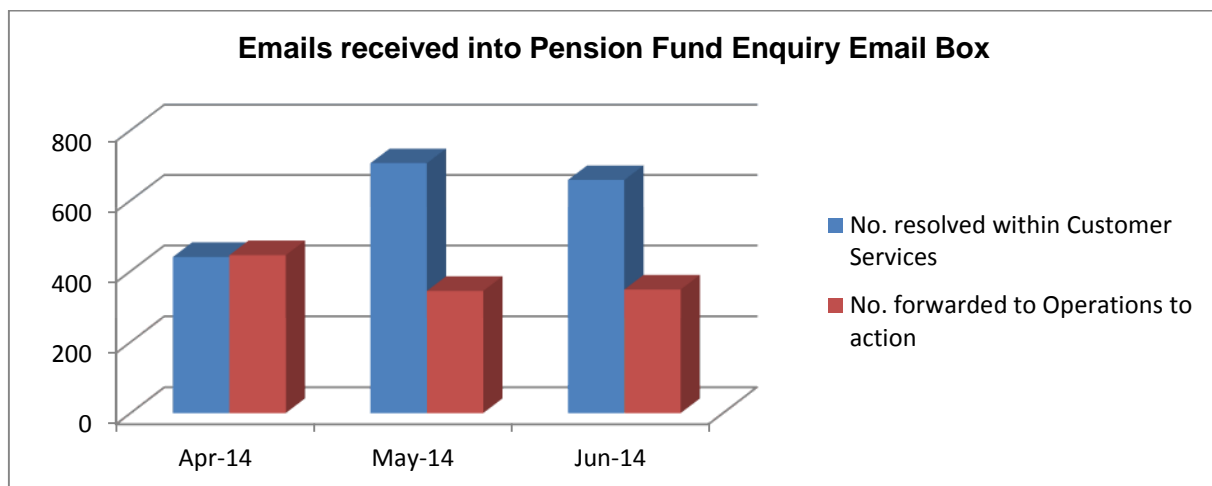
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Customer Service Statistics 1 April 2014 to 30 June 2014



	April 2014	May 2014	June 2014
No of Calls Offered	5,533	6,329	5,139
No of Calls Answered	4,966	5,346	4,465
Answer Rate	89.8%	84.5%	86.9%
Calls answered at first point of contact	99.70%	99.5%	99.8%

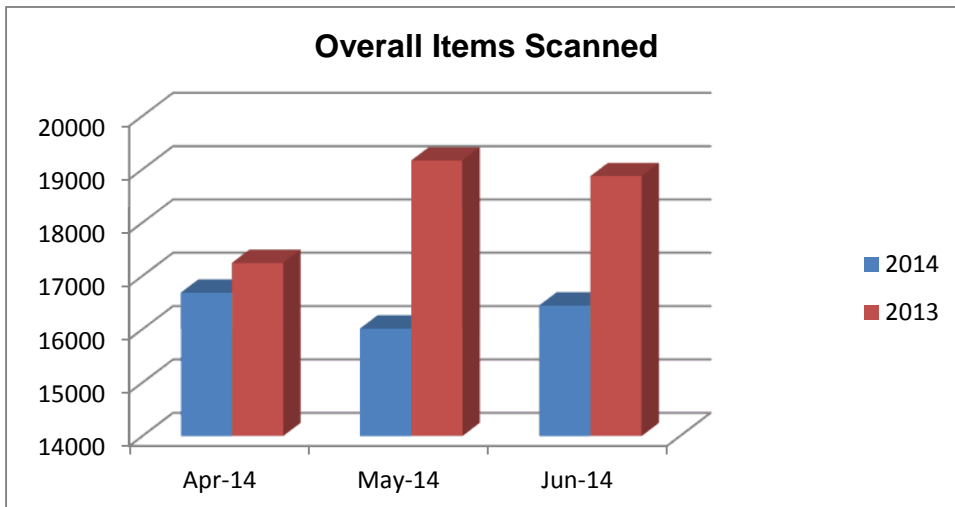


Number of Emails Received

	April 2014	May 2014	June 2014
No. resolved within Customer Services	440	706	658
No. forwarded to Operations to action	445	344	348
Total Emails received	885	1,050	1,006

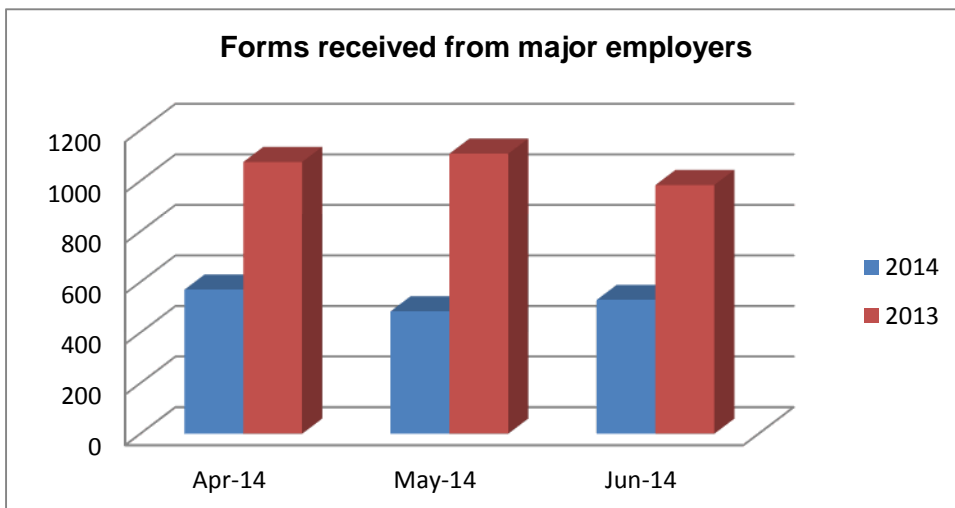
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**Data Quality Statistics
1 April 2014 – 30 June 2014**

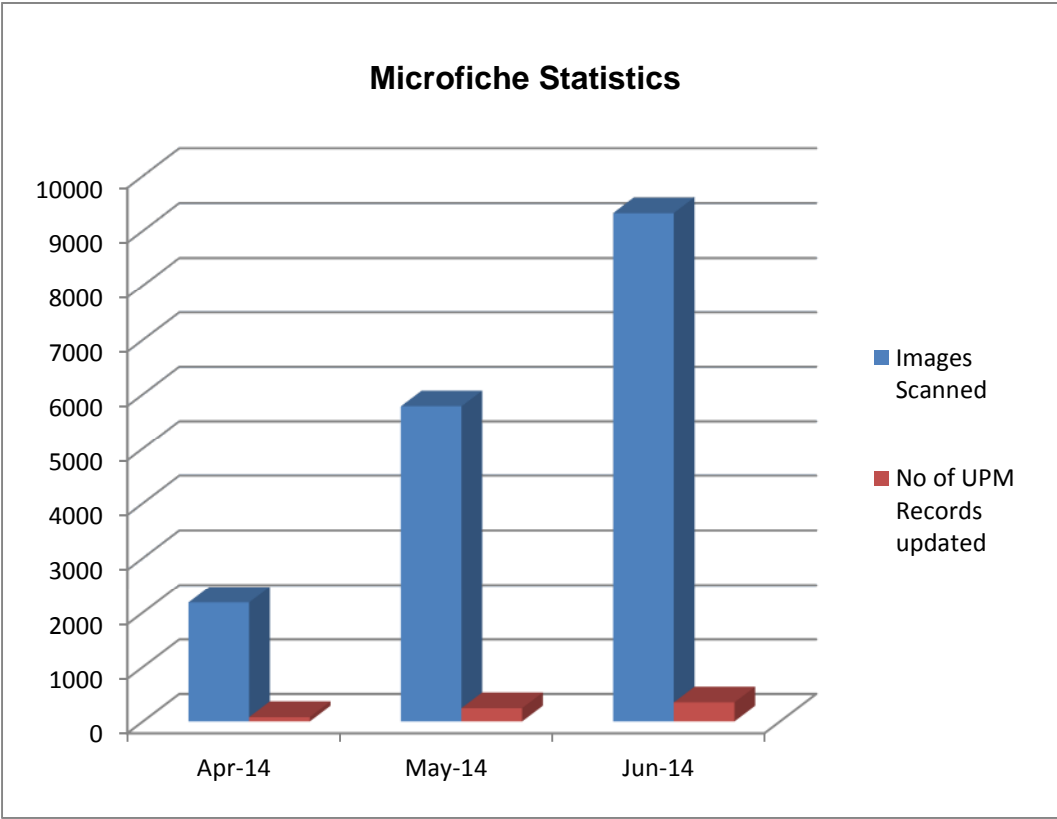


	2014	2013
April	16687	17247
May	16014	19167
June	16447	18874

	Overall Scanned	Indexing errors	% error rate
April 2014	16687	17	0.10
May 2014	16014	19	0.11
June 2014	16447	24	0.14



	2014	2013
April	570	1075
May	484	1108
June	529	984



	Images Scanned	No of UPM Records updated
April-14	2183	80
May-14	5779	244
June-14	9323	349



Pensions Committee

24 September 2014

Report title	Compliance Monitoring 1 April – 30 June 2014	
Originating service	Pension Services	
Accountable employee(s)	Jennifer Dugmore	Compliance and Risk Officer
	Tel	01902 552092
	Email	Jennifer.dugmore@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. That no compliance issues have arisen in this period.

1.0 Purpose

- 1.1 To provide Committee with the quarterly update on the Compliance Monitoring Programme (“The Programme”) highlighting any issues that have arisen or have been identified.

2.0 Background

- 2.1 The Fund has in place a Compliance Monitoring Programme, which aims to ensure its investment management practices, its external managers and those with whom it transacts business, follow best practice and operate to acceptable standards. The 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 are required to undertake the comprehensive Compliance Monitoring Programme which comprises of a set of tests directly linking to the Fund’s risk register and legislative requirements.
- 2.3 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.

3.0 Current monitoring programme

- 3.1 As part of the Fund’s monitoring, random testing is undertaken on its transactions, these include transactions in Investments, securing the future benefit for members and transactions on the business of the Fund from expense claims to payment of invoices.
- 3.2 A sample of approximately 5% of total purchase and sale transactions during the period of 1 April-30 June 2014 have been reviewed to assess timely and best execution processes. This assessment is done by way of comparison of internal and external records and documents and market information.
- 3.3 A selection of expenses charged to the Fund during the period was also reviewed for accuracy and appropriateness and in the case of external managers, adherence to individual management agreements.
- 3.4 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.

3.5 The Programme testing for this period highlighted no issues and officers are satisfied that all processes are being followed in accordance with best practice. All trades, invoices, payments and receipts sampled met with requirements and were recorded in line with regulatory standards.

3.6 No on-site visits with external managers were conducted during this period.

4.0 Future reviews

4.1 To ensure the ongoing best practice of the Fund in its adherence to regulatory requirements and standards, the Fund is in the process of reviewing the current Programme. The new approach will ensure the Programme testing is conducted on a risk base, highlighting current high risk areas and potential risks forthcoming over the period. This will link the programme to the Fund's objectives and the risk register which was approved by Pensions Committee in March 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 at the City Council.

5.2 During the period the Fund received four 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. In all instances the requests were managed in accordance with the requirements of the respective Acts.

5.3 To monitor efficiencies and staff resources from 1st March 2014 the Fund started to record the time spent by employees in responding to requests under the Act. For this period a total of 21 hours was spent by employees responding to the requests

6.0 Matters arising

6.1 As part of the Programme the Fund regularly reviews national, international and industry press coverage to identify any developments which may have a financial impact on the Fund.

6.2 During the period no new articles or commentary were issued.

7.0 Financial implications

7.1 Compliance monitoring is an essential part of the Fund's adherence to best practice guidance. Failure to comply would expose the Fund to greater risks of liabilities and challenges from stakeholders. A good Compliance Monitoring Programme ensures those risks are mitigated and managed. This quarterly review has not identified any failures or areas of high concern and therefore there are no financial implications arising from this report.

8.0 Legal implications

8.1 Compliance monitoring is an essential part of the Fund's adherence to best practice guidance. Failure to comply would expose the Fund to greater risks of liabilities and challenges from stakeholders. A good Compliance Monitoring Programme ensures those risks are mitigated and managed. This quarterly review has not identified any failures or areas of high concern and therefore there are no legal implications arising from this report.

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 are no background papers.



Pensions Committee

Report title	LGPS 2014	
Originating service	Pension Services	
Accountable employee(s)	Amy Whiles Tel Email	LGPS 2014 Project Lead/Project Officer 01902 554643 amy.whiles@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The activity and progress to date of the implementation of the LGPS 2014
2. The expected timescales for the implementation of the pension administration system changes.

1.0 Purpose

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

2.0 Background

- 2.1 Since the finalisation of the Transitional Regulations in March, the Fund has been working closely with the software provider to specify and develop the changes required to the pension administration system UPM. Due to the delays with the regulations, the software provider was unable to fully specify the changes required to the pension calculations in time for 1 April 2014 implementation.
- 2.2 The Fund is trying to minimise the impact on 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 are being experienced.
- 2.3 A higher than normal workload in terms of post 1 April 2014 retirements has been received and the Fund is currently working through these as a priority.

3.0 Progress

- 3.1 Work is well underway with developing and testing the 2014 changes and it is anticipated that the migration of the priority system changes into the live UPM environment will be initiated from 3 September.
- 3.2 It is anticipated that the changes to the Fund's web portal will be completed around the same timescales, and made available to employers and members around 8 September. This will automate the retirement and early leaver processes and enable employers and members to run quotations on the web portal.
- 3.3 The Fund has investigated the different options for implementing the changes in the live environment to ensure minimal disruption to operational services. Testing has been completed to automate the set-up of the changes where applicable to reduce the time required.
- 3.4 Employers are regularly being updated through the monthly 'Employer Briefing Note', Employer Peer Group and further updates are written when appropriate. Support will be available for employers when the system changes are implemented.

4.0 Financial implications

- 4.1 The project has been managed from within existing Fund resources and budget and the additional costs which are being incurred by the Fund will be absorbed within the current year budget approved by Committee in March 2014.

4.2 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 their membership. The Fund is operating overtime to manage the manual processing of post 2014 retirements, this will cease following the implementation of the system changes.

4.3 Due to the delays with the implementation of the system changes the Fund has been unable to provide via the online portal an accurate estimate of member retirement benefits built up post 31 March 2014. An interim solution for employers, which was agreed with the Fund's actuary, was implemented in July which enabled them to determine early retirement strain costs.

5.0 Legal implications

5.1 The report contains no direct legal implications for the Authority, however if further delays are experienced 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 implications for the Council's equal opportunities policies.

7.0 Environmental implications

7.1 This report contains no direct implications for the Council's environmental policies.

8.0 Human resources implications

8.1 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 This report contains no corporate landlord implications for the Council.

10.0 Schedule of background papers

10.1 There are no background papers for this report.

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Pensions Committee

24 September 2014

Report title	Service plan monitoring 2014/15	
Originating service	Pension Services	
Accountable employee(s)	Riz Dhanani	Fund Accountant
	Tel	01902 554642
	Email	riz.dhanani@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	geik.drever@wolverhampton.gov.uk

Recommendation(s) for noting:

The Committee is asked to:

1. Note the financial monitoring along with the Fund's key performance indicators.

1.0 Purpose

- 1.1 At the March 2014 meeting, Members approved the 2014-19 Service Plan, together with the Financial Plan and 2014/15 Operating Budget. This report provides an update to the Fund's financial and service plan monitoring.

2.0 Performance against medium term plan

- 2.1 The eight key priorities in the Service Plan are detailed in Appendix 1, which represents a summarised update of activities. The Pensions Committee received a detailed report on the individual priorities in the 'Assurance Framework – Supporting The Annual Governance Statement' in March 2014.
- 2.2 The plan provides the supporting medium term financing statement to the Fund's Service Plan which was approved at the Committee meeting on 26 March 2014, a full copy of which is available on the Fund's website www.wmpfonline.com.
- 2.3 Activities against the plan continue in line with objectives. An abridged summary of performance against KPI's is included in Appendix 2 where it can be seen that performance has remained stable or improved in most criteria during the period.
- 2.4 Performance against pension administration targets deteriorated due to the large increase in manual calculations required while LGPS 2014 system upgrades were being developed by our software provider. We expect performance to improve to former levels once the upgrades have been completed.

3.0 Operating budget 2014/2015

3.1 The summary operating budget for pension services and current projected outturn as at 30 June 2014 are shown below:

	2014/15 Budget	2014/15 Projection	2014/15 Over/(Under)
	£	£	
Employees	4,512,565	4,250,421	(262,144)
Premises-related	343,767	343,767	-
Transport-related	68,516	68,516	-
Supplies and Services			-
- Communications & Computing	740,007	740,007	-
- Investment Management & Advice	11,397,590	11,397,590	-
- Other Services (including Actuarial Fees)	2,077,891	2,077,891	-
Operating Costs	19,140,337	18,878,193	(262,144)
Support Services (including Computing)	507,420	507,420	-
Service Development	350,000	350,000	-
Total Expenditure	19,997,757	19,735,613	(262,144)
Miscellaneous Income	(530,025)	(530,025)	-
Net Expenditure	19,467,732	19,205,588	(262,144)

- 3.2 The projected underspend of £0.26 million is based on income and expenditure to date, however it is too early in the financial year to provide detailed variances and projections will be more certain as the year progresses.
- 3.3 The underspend in employee costs is due to a number of posts being held or remaining vacant and is likely to increase as many of the vacancies continue to remain unfilled during the year.
- 3.4 The Fund continues to review its operating costs and procedures, with many key operational processes having been reviewed under the LEAN programme and efficiency gains made.

4.0 Financial implications

4.1 The projected financial outturn is as detailed in paragraph 2 above.

5.0 Legal implications

5.1 This report contains no direct legal implications for the Authority.

6.0 Equalities implications

6.1 This report has no implications for the Council's equalities policies.

7.0 Environmental implications

7.1 This report has no implications for the Council's environmental policies.

8.0 Human resources implications

8.1 The report contains no direct human resource implications for the Authority

9.0 Corporate landlord implications

9.1 This report has no implications for the Council's corporate landlord.

10.0 Schedule of background papers

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

11.0 Appendices

11.1 Appendix 1 – Review of service plan objectives

11.2 Appendix 2 – KPI detailed actions, timescale and reporting requirements June 2014

Activity	Benchmark Measurement	Target	Frequency	Comments
Quality procedures and practices				
a) Maintain Quality Accreditations	Investors in People (IIP), Investors in Excellence (IIE), Customer Service Excellence (CSE) and shortlisting in industry awards	Reaccreditation/shortlisting for awards	Annually	IIP silver award granted on first attempt, officers are currently being trained on gold standard requirements to progress at the next round of accreditation. Customer Service Excellence was reaccredited this quarter noting areas of hard work in a difficult period during the legislative changes.
b) Respond to best practice	Through updates to SMT	Improvements to be identified and reported on regularly	Quarterly	The Fund actively responds to consultations on proposals for guidance and best practice.
c) Respond to legislative changes	Requirement of new legislation	Compliance with new legislation	Quarterly	The Fund has appointed a solicitor in post as Head of Governance to assist with the legislative changes faced by the Fund. All changes are monitored through email updates and alerts and are reviewed and implemented in an efficient and timely manner.
d) Data quality	To ensure bulk validation of incoming data	Maintenance of regular checks	Continuous with quarterly reports	Bulk data validation consistently maintained and reviewed.

Drive progress through performance improvement				
a) Improve data quality standards to meet regulatory requirements	Review of performance against specific targets set by the regulator in respect of completeness and accuracy of data	Achieve targets set by the regulator	Ongoing/annual	Common data is already meeting TPR standards. Additional analysis and improvements will be made to conditional data with a view to achieving targets by 2015.
	Outcome of reviews by the regulator and internal audit	Positive reports by review bodies	Ongoing/annual	Reviews to be considered as and when appropriate.
b) Develop cross-cutting key performance indicators focused on service priorities	Performance against new key performance indicators (KPIs)	The aim is for the pension administration service to operate at 85% (or better) in accordance with the standards set	Annual and quarterly reporting	Revised KPIs have been implemented with effect from January 2014 and these have been monitored and amended where necessary. Standards met in the majority of cases.
c) Manage performance through focused and targeted action	Key activities impacting on service issues	To be within or close to best practice	Annual and quarterly reporting	Performance constantly monitored to ensure optimal efficiency and a high level of service.

Activity	Benchmark Measurement	Target	Frequency	Comments
Develop and implement customer engagement strategies				
a) Develop, review and consult upon and implements engagement strategies	Availability of fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and Quarterly reporting	The Fund has a dedicated communications officer who, in the last quarter, has created and implemented a new user friendly approach to the Fund's website making more information more easily accessible. The Fund has also moved to a more electronic model of working with the web portal facility available for members together with electronic benefit statements. The fund actively seeks reviews and feedback on the presentations and resources it provides to member and employers and utilises survey monkey to input those results creating a benchmark for comparison going forward.
b) Hold AGM and mid-year reviews annually for employers	Events held in summer and winter each year and favourably received	Two events per year with respondents to feedback stating event was either good or excellent	Report to SMT following event	Mid Year Review and AGM successfully held in 2014 receiving positive feedback. The Fund held its mid-year review in July in Wolverhampton and was successfully attended by a variety of employer groups, trade unions and Trustees. The Fund are currently reviewing potential venues for the annual review in light of feedback received and are timetabling the lead in for this event, organisation of which is due to start in the next 4-6 weeks.
c) Develop communication with stakeholders' needs in mind	Availability of fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and Quarterly reporting	In addition to a) the Fund hosts an Employer Peer Group and regularly provides employer briefing notes to representatives. Employers have been actively involved in the governance reforms through the governance review working party created by pensions committee and their input and communication has been valuable in shaping the new structure.
d) Implement and review customer journey mapping (CJM) programme	CJM programme to be implemented with project plan targeting customer segmentation	Processes reviewed by customers on a quarterly basis	Quarterly	Comprehensive CJM programme to be implemented following the delivery of the 2014 new Scheme and the ensuing period of stability.

Activity	Benchmark Measurement	Target	Frequency	Comments
Management of risk strategies				
a) Regular risk management reviews	Annual risk review	To have an action plan for all high risk assets	Annual/quarterly monitoring	It has been identified that the current risk register is very reactive in its approach and compliance officers are currently reviewing this going forward into the next quarter to ensure a more proactive take on risk. Highlighting potential risks in forthcoming legislation or industry requirements while managing ongoing risks in an efficient manner.
b) Review of major changes and new activities of business	Review/approval from Pensions Committee	All fund risks are adequately managed	Ongoing/quarterly reviews of risk register	The risk register underwent a full review and was agreed by Pensions Committee in March 2014. Is reviewed on a quarterly basis by senior management to ensure all risks are updated in line with their impact and probability.
c) Develop and maintain risk management approach in order to give annual assurance statement	Review/approval from Pensions Committee	All Fund risks are adequately managed	Annual review	The risk management of the Fund is constantly being reviewed as well as a) above, regular testing is conducted with regards to performance and compliance monitoring. No issues have been identified this quarter.
d) Develop and implement business continuity planning	Review/approval from SMT	Full test of business continuity plan to be completed by Q2 2014	Annual review	The business continuity policy is updated on a regular basis and a full annual review is completed each year. A full test of the plan will be implemented once staff changes are complete.

Page 51

Review and implement investment strategy				
a) Review of investment strategy	Annual asset allocation review/SIP	Ensure investment strategy has regard to Fund's liability structure	Annual with quarterly monitoring	Investment strategy review made to June's Pensions Committee followed up with annual SIAB review to September's Pensions Committee. Detailed report on listed equities to September's IASC.
b) Implementation of investment strategy	Review/approval by Investment Advisory Sub-Committee	Ensure changes carried out within agreed timescales and cost effectively	Quarterly	Quarterly updates on SIAB implementation made to IASC. New property management arrangements are being put in place following OJEU tender.
c) Monitoring of performance and portfolio changes	Reporting to investment Advisory Sub-Committee	Ensure performance at least matches agreed benchmarks	Quarterly	Quarterly asset allocation and investment performance reports made to IASC. Recent investment performance has at least matched benchmarks.
d) Voting and implementation of ESG policies	Reporting to Pensions Committee and Investment Advisory Sub-Committee/SRI Statement	Comprehensive voting programme and membership of LAPFF and other ESG initiatives	Quarterly	New responsible investment officer has been appointed to manage increasingly high workload and to strengthen the fund's capacity in this area.

Activity	Benchmark Measurement	Target	Frequency	Comments
Triennial actuarial valuation				
a) Engage with employing bodies and discuss issues	Consultation programme extended to all participating employers	Meet agreed timetable	Next actuarial valuation 2016	Extensive engagement undertaken with employing bodies, particularly around the 2013 valuation.
b) Collect data for valuation	Formal valuation project plan	Meet agreed timetable	Annually	Data successfully collected for all employers and in accordance with deadlines.
c) Communicate individual results	Actuarial contributions certified as per regulatory requirements	Meet agreed timetable	Next actuarial valuation 2016	Results communicated to all employers in a timely manner.
d) FSS to be updated accordingly to include the Fund's strategy for deficit repair	Regulatory requirements	Comprehensive and up to date	Next actuarial valuation 2016	FSS updated accordingly in line with the outcomes of the valuation and the Fund's strategy in this area. Placed on the Fund's website.
e) Ongoing review of investment strategy to maintain SIP	Regulatory requirements	Comprehensive and up to date	Annual	SIP to be updated after changes in Investment strategy agreed.
f) Regular employer covenant review	All employer covenants reviewed and necessary actions taken	100% of employer covenants	Annual	Employer covenant review underway to take into account latest financial information and the 2013 valuation results.

Trustee and consultative forum training				
a) Maintain and expand the opportunities to build trustee knowledge and understanding	CIPFA Skills and Knowledge Framework. Wide range of knowledge-building opportunities provided	Minimum of 20 hours' provision to Committee members	Ongoing/yearly report	The fund has in place a programme of trustee training which aims to develop trustee knowledge throughout the year, developing more complex training in line with the level of experience of a trustee. A 3 day conference is planned for October when Trustees will attend 15 hours of training in 3 days on areas relevant to the decisions they face in the coming quarter and includes government proposals on change.
b) Monitoring of approved training policy	Wide range of knowledge-building opportunities provided	100% target achieved	Ongoing	The Trustee Management Officer is responsible for maintaining a record of trustee training ensuring the requirements of knowledge and understanding are met by each trustee. Where a shortfall of training hours is identified, the Trustee Management Officer provides support and guidance on available resources as well as offering and arranging 1-2-1 sessions with individual trustees.
c) Identification of training needs and development of training plan	Wide range of knowledge-building opportunities provided	Training needs identified and addressed	Ongoing	as above
d) To ensure trustees meet TPR competency requirements	TPR framework and standards and training needs analysis	Compliance with CIPFA Knowledge and Skills requirements	Ongoing	as above

Activity	Benchmark Measurement	Target	Frequency	Comments
Developing people				
a) Ensure a skilled, flexible and professional workforce	Staff induction, training plan and appraisal	25 hours per annum for all staff	Ongoing	The in-house training team are very adept at developing staff ensuring their technical knowledge of systems is up to date. The Business Support Officer monitors performance of each team providing reports to SMT to monitor their team's training hours and identifying where there are shortfalls. The team are also developing their soft skills training which will be implemented into induction sessions for new staff.
b) Measure and improve competency levels through performance appraisals	Annual appraisal	100% compliant with Wolverhampton City Council and all staff appraised by April 2014	Annual appraisal with six-month review	Annual appraisals successfully delivered with six month review point.
c) Learning and development guide developed and reviewed with due attention to training needs analysis and performance appraisals	Training needs addressed with development plan created	Training needs analysis to be reviewed annually	Annual	The Fund has developed a new training strategy for staff wanting to take on a degree or relevant training which will be assessed on a business case. In addition, the in-house training team have devised an intranet site on Sharepoint which provides training information, relevant links to external sites, materials from training sessions and a comments blog to identify and share common problems that may be easily resolved.
d) Cultivate a working environment where knowledge is shared	Knowledge library of all courses available on SharePoint	100% of internal courses made available via SharePoint	Ongoing	As well as above, staff briefing sessions have been very active lately due to a number of changes occurring in pension funds.
e) Maintain accreditations including Investors in People (IIP) and Customer Service Excellence (CSE)	Investors in People (IIP), Investors in Excellence (IIE) & Customer Service Excellence (CSE)	Reaccreditation	Annual	IIP silver award granted on first attempt, officers are currently being trained on gold standard requirements to progress at the next round of accreditation. Customer Service Excellence was reaccredited this quarter noting areas of hard work in a difficult period during the legislative changes.

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No	Description	Target	Lead Officer	Actual (Score and RAG)	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%	31/03/2013	SMT	75.00%	31/03/2010	0.00%
2	TRANSFERS IN Non-LGPS transfer in quotations processed within 10 days of receiving all the required information	90%	ST	100.00%	Jun-14	SMT	75.00%	Apr-14	25.00%
	Non-LGPS transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		92.86%			100.00%		-7.14%
	TRANSFERS OUT Non-LGPS transfer out quotations processed within 20 days	90%	ST	60.27%	Jun-14	SMT	50.00%	Apr-14	10.27%
	Non-LGPS transfer out payments processed within 10 days	90%		33.33%			36.36%		-3.03%
	RETIREMENTS Retirement options to members within 15 days	90%	ST	27.21%	Jun-14	SMT	73.89%	Apr-14	-46.68%
	Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		98.14%			96.44%		1.70%
	New retirement benefits processed for payment following receipt of election within 5 days	90%		91.46%			76.09%		15.37%
	DEATHS Acknowledgement of a death to due within 5 days of receiving the notification.	90%	ST	75.34%	Jun-14	SMT	20.00%	Apr-14	55.34%
Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%	50.00%		88.89%			-38.89%		
Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%	100.00%		100.00%			0.00%		
3	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to be within 2% of the benchmark (3 Yr Rolling)	VARIANCE +/- 2%	MC	BENCHMARK 6.05% ACTUAL 6.32% RELATIVE 0.27%	Jun-14	SMT	BENCHMARK 5.97% ACTUAL 5.54% RELATIVE -0.43%	Mar-13	0.70%
4	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	95%	ST	87%	Sep-13	SMT	89%	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%
5	CONTRIBUTIONS RECEIVED Main Fund 98% (total value) of contributions to be received by the due date.	98%	RD	99.04%	Jun-14	SMT	99.07%	Mar-14	-0.03%
	Travel Fund 98% (total value) of contributions to be received by the due date.	98%		100.00%	Jun-14	SMT	100.00%	Mar-14	0.00%
6	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the Main Funds external auditors	Clean Report	RD	Yes	Year to 31/03/2014	SMT	Yes	Year to 31/03/2013	
	Annual audit returns no significant findings	0 significant findings		0	0		0.00		
	Receive an unqualified audit opinion from the Travel Funds external auditors	Clean Report		Yes	Year to 31/03/2014	SMT	Yes	Year to 31/03/2013	
	Annual audit returns no significant findings	0 significant findings		0	0	0.00			
7	EXTERNAL ACCREDITATION The Fund to be shortlisted for all of the awards in which it is entered.	100%	RH	Applications 3 No. Pending 0 No. Shortlisted 2 Percentage Shortlisted 67%	Jun-14	SMT	Applications 12 No. Pending 4 No. Shortlisted 5 Percentage Shortlisted 63%	Dec-13	4.17%
8	SICKNESS ABSENCE Fund staff should not have more than 6 days sick leave on average per annum.	6 days p.a.	SMT	1.70	Jun-14	SMT	3.16	Dec-13	1.46
9	COST PER MEMBER Administration cost per member to be reduced from budgeted figure of £24	<£24	SMT	£19.21	Mar-14	SMT	£20.48	Mar-13	£1.27
10	TRAINING HOURS (QUARTERLY) Fund staff should undertake a minimum of 25 hours CPD on average per annum	25 hours	SMT	10	Jun-14	SMT	12	Mar-14	-2.00

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Pensions Committee

24 September 2014

Report title	Annual report and accounts 2013/14	
Originating service	Pension Services	
Accountable employee(s)	Riz Dhanani	Fund Accountant
	Tel	01902 554642
	Email	riz.dhanani@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the Fund's 2013/14 annual report and accounts and its publication on the Fund's website following completion of the external audit.

1.0 Purpose

- 1.1 Members are requested to note the contents of the draft 2013/2014 Report and Accounts for West Midlands Pension Fund and to approve their publication on the Fund's website following review by the Fund's auditor, PwC (see Appendix 1).

2.0 Background

- 2.1 The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its year-end position as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting standards (IFRS) as amended for the UK public sector. The accounts have been approved by the Authority's Section 151 Officer, submitted to Audit Committee and are currently being audited by the Fund's external auditors, PwC (at the time of writing).
- 2.2 The annual report is prepared in accordance with Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 and in line with CIPFA guidance.
- 2.3 The Fund's annual audit report and findings will be presented to the Committee by PwC at the commencement of this meeting following the completion of their audit and provision of their audit opinion.

3.0 Key Points

- 3.1 There have been no significant changes to the figures in the statement of accounts since their submission to PwC (as at the time of writing). Minor amendments and corrections have been actioned during the course of the Fund audit.
- 3.2 In addition to the Statement of Accounts the Annual Report contains details of the management and financial performance for the year, the Fund's investment policy and returns and key policy documents.
- 3.3 The annual report and accounts are required to be published on the Fund's website on or before 1 December 2014.

4.0 Audit Opinion

- 4.1 There are no significant accounting issues that have been identified following the audit, and subject to the finalisation of certain audit work we expect to be issued with an unqualified audit opinion (see Appendices 2 and 3).

- 4.2 Some internal control weaknesses were identified. These were the monitoring of late contribution payments, maintaining the contributions spreadsheet and the performance of bank reconciliations. Currently 99% of the Fund's contributions are regularly received on or before the due date and there are no bad debts. To improve this further a new process has been implemented in collaboration with the Employer Team to contact late payers and log communications so that early intervention can be taken if required.
- 4.3 The contributions monitoring spreadsheet has been brought up to date following a backlog that developed subsequent to the loss of experienced staff. Arrangements are also being put into place to link the receipts with the general ledger following the transfer of this duty from Wolverhampton City Council (WCC) to the Pension Fund on 1 April 2014 and the implementation of the new Agresso accounting system which should provide management information when it is fully functional.
- 4.4 The bank reconciliation process was previously undertaken by staff at WCC and also transferred to the Pension Fund on 1 April 2014. The departure of the member of staff at WCC responsible for this process prior to the audit prevented queries from being sufficiently addressed. The Fund has now taken over this responsibility and will implement a bank reconciliation process later this year.

5.0 Financial implications

- 5.1 The financial implications are detailed in the 2013/2014 Annual Report and Accounts.

6.0 Legal implications

- 6.1 The report contains no direct legal implications for the Council.

7.0 Equalities implications

- 7.1 This report has no implications for the Council's equal opportunities policies.

8.0 Environmental implications

- 8.1 The report contains no direct implications for the Council's environmental policies.

9.0 Human resources implications

- 9.1 This report has no implications for the Council's human resources policies.

10.0 Schedule of background papers

- 10.1 There were no additional preceding background papers except those listed in the report.

11.0 Appendices

11.1 Appendix 1 – Annual report and accounts

11.2 Appendix 2 – Audit opinion

11.3 Appendix 3 – Draft audit report

Annual report 2014

West Midlands Pension Fund



Contents

Chair's And Director's Statements	03	Statistical Information and Risk Management	22	Annual Governance Statement 2013/2014	61
Councillor Thomas (Bert) Turner, Chair's Statement	03	Overall Fund Statistical Information	22	Appendices	69
Geik Drever, Director's Statement	04	Risk Management	29	Statement of Investment Principles 2014	70
Statutory Information	05	Responsible Investment	31	Socially Responsible Investment Statement 2014	78
Pensions Committee	05	Voting Summary	32	Funding Strategy Statement 2014	82
Participating Employers of the Fund	06	LAPFF Engagement Summary	34	Governance Compliance Statement 2013	89
Member Training Report	11	Compliance With Myners' Report	35	Communications Policy Statement 2014	93
Introduction to the Fund	13	Statement of the Consulting Actuary	40	Administering Authority Policy Statement 2014	99
Management Reports	14	Financial Statements	42		
Operations Report	14	Independent Auditor's Statement to the Members of the West Midlands Pension Fund (the 'Authority') on the Pension Fund Financial Statements	42		
Financial Services Report	16	Statement Of Responsibilities	43		
Communications Report	17	Fund Account	44		
Investment Policy and Performance Report	18	Net Assets Statement	45		
Top Twenty Equity Holdings	20	Notes to the Accounts	46		
Top Twenty Indirect Holdings	21				

Chair's Statement

2013/2014 saw West Midlands Pension Fund focus on implementing the changes to the Local Government Pension Scheme (LGPS) from 1 April 2014. The changes encompassed many aspects including working with our software provider to ensure system changes were implemented, developing communication strategies to ensure all stakeholders were kept up to date with the important changes to the way pensions are calculated and training Fund staff and employers on new responsibilities and data requirements.

The implementation of LGPS 2014 does not see the end of changes for the LGPS and, in July 2014, we submitted our views on the Government's long-term plans to reform its structure. The Government's consultation document proposed the use of common investment vehicles (CIVs) throughout LGPS and greater use of passive investment management in order to achieve cost savings. The Fund supports further LGPS collaboration and other measures to achieve cost savings and efficiencies.

Changes to the governance structure of the LGPS will come into effect from 1 April 2015, and whilst more information on this will be published later in 2014, Fund officers are already working on planning for these changes.

The last twelve months also saw the Fund receive recognition for excellence in customer service and staff development with accreditations in Customer Service Excellence and Investors in People. The Fund gained the highly coveted Investors in People Silver Award which it achieved on its first attempt.

The Fund has worked hard over the past twelve months to strengthen its customer focus with member roadshows, retirement courses, employer events and further support of our employers in a series of LGPS 2014 employer events.

During the year, much work also went into the Fund's 2013 triennial actuarial valuation which involved extensive stakeholder consultation and negotiation with numerous participating employers. This was achieved in the context of a difficult economic environment, and funding parameters have now been agreed on how the employers' liabilities will be met going forward. Information relating to this and the actuary's final report can be found on the Fund's website at wmpfonline.com.

Needless to say, ensuring a cost-efficient service is a key consideration for the Fund and, as ever, the Fund works to continually identify changes where it can make its business more efficient and customer focused.

In closing, I would like to thank the officers of West Midlands Pension Fund for all their hard work. With their expertise and dedication, I am confident that the Fund is capable of meeting the challenges that lie ahead.

Councillor Thomas (Bert) Turner
Chair Of Pensions Committee

Date: September 2014



Director's Statement

2013/2014 was a busy year for West Midlands Pension Fund. From 1 April 2014, the Local Government Pension Scheme (LGPS) changed to a career-average revalued earnings (CARE) scheme and the Fund needed to implement the required changes in a swift and efficient manner ensuring there was minimal disruption to our service. In order to implement the changes, the Fund had to develop its computer systems which required us to work with our software provider to ensure our requirements were met, develop our communication strategies, ensure all stakeholders were kept up to date with the important changes to the way their pensions are calculated, as well as train Fund staff and employers on new responsibilities and data requirements. Through our efficient use of in-house resources and drawing on our expertise, we were able to implement the changes with minimum disruption to our members.

The changes which came into effect from 1 April 2014 are not the end of the changes to the LGPS as the Government continues to consult on a number of proposed reforms. In addition to the changes in how LGPS schemes are administered, the Government has outlined its proposals for how schemes should be governed after 1 April 2015. As part of that outline, the Government has issued draft regulations on the proposed new governance structures and, following engagement with members and employer representatives, the Fund has submitted a response to the consultation setting out how we think the requirements could be adopted by the Fund. In addition, we have responded to Government consultations on changes to the LGPS including the most recent one on collaboration, cost saving and efficiencies, and participated in various national LGPS Shadow Board sub-committees.

During 2013/14, the Fund worked through the planning phases of that valuation into its 2014 delivery. The Fund's valuation confirmed that the funding level had remained at 75%. The final valuation outcomes were achieved after extensive consultation and negotiation with our participating employers. This was achieved in the context of a difficult economic climate with significant financial pressures for the organisations concerned. In addition and in conjunction with the Fund actuary, the Fund published a *Funding Strategy Statement (FSS)* aligned to the valuation, which set out the funding parameters and identified how the employers' liabilities will be met going forward.

The Fund delivered a return of 3.5% for the year, outperforming its bespoke benchmark by 0.4%. The main contributors to the outperformance were good relative performances from the quoted equities and fixed interest portfolios. Over the medium term of three years, a 6% annualised return was achieved against a benchmark of 5.5% and over the longer term of ten years, 7.6% was delivered against a 7.5% benchmark, ahead of RPI and career earnings.

The Fund prides itself on the service it provides to our members and this was recognised in the reaccreditation of the Fund in Customer Service Excellence together with a new award of Investors in People (IIP), which the Fund achieved on its first attempt. The Fund was also shortlisted for a number of awards in the last year, including DB Communications (Public Sector), Best DB Scheme Awards and Innovation Award of the Year.

The Fund has worked hard over the past twelve months to strengthen its customer focus with member roadshows delivered on site, retirement courses, ensuring our staff are fully trained to answer queries on first contact together with our continued support of employers in a series of LGPS 2014 events as well as our AGM.



In consideration of our customers' needs and the feedback received, the Fund has developed a new website which is more accessible to our members with user-friendly screens and is now a better resource of information for our customers. The website, wmpfonline.com, also hosts a variety of documents including the Fund's policies and actuarial valuation report.

At the same time, in recognising the need for our website to be more user friendly, we have taken this approach one step further and created a web-portal facility for our members. This enables them to gain access to information about their pension, whether active or deferred, at the touch of a button. We first introduced our employers and members to our web portal last year and we have seen high levels of interest from all stakeholders which resulted in a large increase in the electronic exchange of data.

The strengthening of the Fund's electronic resources is of great importance for the forthcoming year as we look to reduce Fund costs, and therefore member costs. The Fund's cost per member is a key performance indicator that the Fund monitors closely and we are pleased to report that it reduced from £20.48 to £19.21 for the last financial year. The Fund has also implemented a new finance system from 1 April 2014 to deliver greater efficiency, improve reporting and drive better performance.

The processing of personal information has always been a hot topic and the Fund has continued to ensure the timely and appropriate management of our customer's personal information. Over the next few months, we will be assisting our employers with our bulk data import processes to ensure they meet the requirements set by the Pensions Regulator. Discussions with employers on how the bulk transfer process will work and what we require have proved successful thus far, and we will continue to build on those relationships as we implement the requirements.

The achievements of the past financial year have prepared us for the important challenges and tasks that will follow in the coming year including any future changes to the LGPS, and we will continue to face those challenges head on ensuring a secure future for our members' pensions.

Geik Drever
Director of Pensions

Date: September 2014

Pensions Committee 2013/2014

WOLVERHAMPTON CITY COUNCIL

- Councillor TH Turner* Chair
- Councillor Z Shah Vice-Chair
(until February 2014)
- Councillor P Bilson*
- Councillor M Evans
- Councillor S Evans
- Councillor M Heap*
- Councillor A Johnson
- Councillor L McGregor
- Councillor J Reynolds
- Councillor T Singh*
- Councillor S Samuels
- Councillor N Clarke (Trustee)
(until October 2013)

*Denotes member of Investment Advisory Sub-Committee

DISTRICTS

- Councillor M Afzal*
Birmingham City Council
- Councillor Z Ali*
Walsall MBC
- Councillor D Gannon*
Coventry City Council
- Councillor R Harris*
Dudley MBC
- Councillor A Martin*
Solihull MBC
- Councillor V Silvester*
Sandwell MBC

OBSERVER MEMBERS

- M Cantello Unison
- M Clift Unite
- I Smith Unite (retired)

ADMINISTERING AUTHORITY OFFICERS

- S Warren
Chief Executive

West Midlands Pension Fund

- G Drever
Director of Pensions
- N Perrins
Head of Pensions Administration
(retired March 2014)
- Simon Taylor
Acting Head of Pensions Administration
(appointed 1 April 2014)
- C Parlor
Head of Governance
(until March 2014)
- R Howe
Head of Governance
(appointed 15 May 2014)
- R Dhanani
Fund Accountant
(from December 2013)
- A Ellis
Communications Officer
- W Trainor
Chief Legal Officer
- M Taylor
Section 151 Officer

MAIN EXTERNAL ADVISERS AND SERVICE PROVIDERS

- Investments
Hymans Robertson LLP
- Property
CBRE Global Investors

J Fender
John Fender Consultancy
- Pension Scheme
Registration Number
10079176
- Actuary
Mercer Human Resource Consulting Ltd
- Custodian of Assets
HSBC Global Investment Services
- Banker
National Westminster
Bank plc
- Auditor
PricewaterhouseCoopers LLP
- AVC Providers
Prudential Assurance
Company Ltd

Equitable Life
Assurance Society
- Corporate Governance
Pensions Investment
Research Consultants (PIRC)

HMRC REFERENCES

- SCON number
S2700178F
- ECON number
E3900002R
- PSTR number
00329946RE
- PSTR sub-number
49/16109

JOINT CONSULTATIVE FORUM (JCF)

The subjects considered by the panel during 2013/2014 include the following:

- New LGPS 2014 proposals
- Lean systems update
- Pensions Administration Strategy
- Trustee Training Policy
- Public Service Pensions Bill
- Communications Policy 2013
- West Midland Pension Fund rebranding
- Policy statement for administering unclaimed benefits.

Participating Employers of the Fund At 31 March 2014

SCHEDULED BODIES

DISTRICT COUNCILS

- Birmingham City Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Metropolitan Borough Council
- Wolverhampton City Council

MAJOR EMPLOYERS

- Centro
- Police and Crime Commissioner West Midlands
- Staffordshire and West Midlands Probation Trust
- West Midlands Fire and Civil Defence Authority

UNIVERSITIES

- Birmingham City University
- Coventry University
- University of Wolverhampton (The)

COLLEGES OF FURTHER EDUCATION AND HIGHER EDUCATION

- Birmingham Metropolitan College
- Bournville College of Further Education
- Cadbury Sixth Form College
- City College, Coventry
- City of Wolverhampton College
- Dudley College of Technology
- Halesowen College
- Henley College
- Hereward College
- Joseph Chamberlain College
- King Edward VI College
- Sandwell College
- Solihull College
- Solihull Sixth Form College
- South and City College Birmingham
- Stourbridge College (*merged with Birmingham Metropolitan College 1 June 2013*)
- University College Birmingham
- Walsall College

OTHER BODIES

- Ace Academy - Education Central MAT (The)
- Acocks Green Primary Academy
- Alderbrook School
- Aldersley - Academies Trust
- Anand Free School
- Aldridge School - A Science College
- Arden Academy Trust
- ARK Academies
- ARK Kings Academy
- ARK Rose Primary Academy
- ARK Tindal Primary Academy
- Arthur Terry Learning Partnership
- Aston Manor Academy

- Aston University Engineering Academy
- Balsall Common Primary Academy
- Balsall Parish Council
- Bartley Green School
- Baverstock Academy - The Leap Academy Trust
- Bentley Heath Church of England Primary School
- Billesley Primary - Academy - The Elliot Foundation Academies Trust
- Birchills Academy - St Chads Academies Trust
- Birmingham Museums Limited
- Bishop Milner Catholic College - The St John Bosco CAT
- Bishop Vesey's Grammar School
- Bishop Walsh - John Paul II Multi-Academy
- Black Country University Technical College
- Blue Coat Church of England Academy Limited (The)
- BOA Birmingham Ormiston Academy
- Bramford Primary - Griffin Academy Trust
- Bristnall Hall Academy - The Academy Transformation Trust
- Broadway Academy
- Castle Bromwich Parish Council
- Caludon Castle School
- Charles Cuddy Walker Academy - Erudition Schools Trust
- Chelmsley Wood Town Council
- Cheswick Green Parish Council
- Chilwell Croft Academy
- Chivenor Academy - Griffin Schools Trust
- City Road Academy - Birmingham City University Academy Trust
- City of Wolverhampton Academy Trust
- Collegiate Academy Trust (The)
- Corngreaves Primary - United Learning Academies
- Coundon Court Academy
- Coventry and Solihull Waste Disposal Company Limited (The)
- CTC Kingshurst Academy
- Croft Primary Academy - The Elliot Foundation Trust
- Deanery Church of England School
- Dorrington Academy Trust
- E-ACT Heartlands Academy
- E-ACT North Birmingham Academy
- E-ACT Shenley Academy
- E-ACT Willenhall Academy
- Earls High School (The)
- EBN Free School
- Edgar Stammers Academy - Education Central MAT
- Education Central Multi Academy Trust
- Erdington Hall Primary Academy
- Ernsford Grange Community Academy - Sidney Stringer Academy Trust
- Fairfax School (Academy)
- Fairway School - Educational Central MAT
- Finham Park School
- Fordbridge Parish Council
- Four Dwelling Primary Academy - Academies Enterprise Trust
- Four Dwellings Secondary Academy - Academies Enterprise Trust
- George Betts Academy - The Elliot Foundation Academies Trust
- George Dixon Academy
- The Giffard Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC
- Golden Hillock Academy - Park View Educational Trust
- Goldsmith Primary Academy - Windsor Academy Trust
- Grace Academy
- Great Barr Primary School
- Greenholm Primary School
- Greenwood Academy - Academies Enterprise Trust
- Grestone Primary Academy
- Hall Green Secondary School
- Hamstead Hall Academy Trust
- Handsworth Wood Girls' Academy
- Harborne Academy
- Hawkesley Church Primary Academy
- Heart of England School
- Heath Park Academy - Central Learning Partnership Trust
- Hillcrest School and Sixth Form Centre
- Hill Farm Academy - Castle Phoenix Trust
- High Arcal School Academy Trust (The)
- Hockley Heath Academy
- Holy Cross - John Paul II Multi-Academy
- Holy Trinity C of E Primary Academy (Handsworth)
- Holly Hall Academy
- Holyhead School
- James Brindley School
- John Henry Newman Catholic College
- Joseph Leckie Academy Trust
- Jubilee Academy Mossley - ATT
- Jubilee Park Academy Trust
- King Edward VI Aston School (Academy)
- King Edward VI Camp Hill School for Boys (Academy)
- King Edward VI Camp Hill School for Girls (Academy)
- King Edward VI Five Ways School (Academy)
- King Edward VI Handsworth School (Academy)
- King Edward VI Sheldon Heath Academy
- Kings Norton Girl's School and Language College
- Kings Rise Academy - The Elliot Foundation Academies Trust
- Kingshurst Parish Council
- Kingswinford School and Science College (The)
- Knowle C of E Primary Academy
- Langley School
- Lea Forest Primary Academy - Academies Enterprise Trust

Participating Employers of the Fund At 31 March 2014

SCHEDULED BODIES

- Leigh Primary Academy - Leigh Trust
- Light Hall School
- Lode Heath School
- Lordswood Boys School - Lordswood Academies Trust
- Lordswood Girls School and Sixth Form Centre - Lordswood Academies Trust
- Mansfield Green E-ACT Academy
- Matrix Academy Trust
- Meriden Parish Council
- Merritts Brook E-ACT Primary Academy
- Mesty Croft Academy
- Moor Green Primary Academy - HTI MAT
- Montgomery Primary Academy - Academies Enterprise Trust
- Moseley Park School - Central Learning Partnership Trust
- Nansen Primary School - Park View Educational Trust
- Nechells Primary E-ACT Academy
- Ninestiles Academy Trust
- Nishkam School Trust
- Oaklands Primary - Ninestiles Academy Trust
- Oasis Community Learning - Foundry Primary
- Oasis Community Learning - Hobmoor Primary
- Oasis Community Learning - Matthew Boulton
- Oasis Community Learning - Short Heath Primary
- Oasis Community Learning - Blakenhall Infants
- Oasis Community Learning - Blakenhall Junior
- Oasis Community Learning - Woodview School
- Ocker Hill Academy Trust
- Oldbury Academy
- Oldknow Academy
- Orchards Primary Academy - Education Central MAT (The)
- Ormiston Academies Trust
- Ormiston Forge Academy
- Ormiston George Salter Academy
- Ormiston Sandwell Community Academy
- Park Hall Academy
- Park Hall Infant Academy
- Park Hall Junior Academy
- Park View Educational Trust
- Parkfields Academies Trust
- Pegasus Academy - Ninestiles Academy Trust
- Percy Shurmer Primary School
- Perry Beeches - The Academy
- Perry Hall Primary School
- Plantsbrook School
- President Kennedy School
- Queen Mary's High School (Walsall)
- Q3 Academy
- Queen Mary's Grammar School (Walsall)
- Radford Primary Academy - Sidney Stringer Academy Trust
- Reaside Academy - Education Central MAT
- Reach Free School
- Reedswood E-ACT Primary Academy
- Redhill School
- Rivers Primary Academy - Windsor Academy Trust
- Robin Hood Academy
- Rookery School
- Rough Hay Primary - Elliot Foundation Trust
- RSA Academy
- Ryder Hayes Academy Trust
- Sandwell Academy
- Sandwell Leisure Trust
- Sheffield Community Academy
- Shireland Hall Academy - The Elliot Foundation Academies Trust
- Shire Oak Academy Trust
- Shirestone Community Academy - The Elliot Foundation Academies Trust
- Sidney Stringer Academy Trust
- Smestow School - Education Central MAT
- Smiths Wood Parish Council
- Solihull Community Housing Limited
- SS Mary and John's Catholic Primary Academy - Bishop Cleary Catholic MAC
- St Bartholomew C of E Academy
- St Chad's Academy - The St John Bosco CAT
- St Clement's C of E Academy Nechells
- St Edmund's Catholic Academy - Bishop Cleary Catholic MAC
- St George's Academy C of E Academy
- St George's Academy Newtown
- St John's C of E Primary School
- St John's and St Peters C of E Academy
- St Joseph's - John Paul II Multi-Academy
- St Joseph's Academy - The St John Bosco CAT
- St Jude's Academy - The Wulfrun Academies Trust
- St Laurence's Primary Academy - Diocese of Coventry MAT
- St Mary's C of E Junior & Infants School
- St Michael's Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC
- St Michael's C of E Primary School Bartley Green
- St Michael's C of E Primary Academy Handsworth
- St Nicholas' - John Paul II Multi-Academy
- St Patrick's Church of England Primary Academy
- St Peter's Church of England Academy Trust
- St Teresa's Catholic Primary Academy - Bishop Cleary Catholic MAC
- Streetly Academy (The)
- Stretton Primary Academy - Diocese of Coventry MAT
- Sutton Coldfield Grammar School for Girls Academy Trust
- Tame Valley Academy - Education Central MAT
- The Blue Coat Church of England Academy
- The Mirus Academy - Walsall College Academies Trust
- Three Spires Academy - RNIB Specialist Learning Trust
- Tile Hill Wood School and Language College
- Timberley Academy Trust
- Timbertree Primary - United Learning Academies
- Tiverton Academy - Elliot Foundation Trust
- Tudor Grange Academy Solihull Trust
- Tudor Grange Primary Academy
- Twickenham Primary Academy
- Valuation Tribunal Service (*formerly Birmingham Valuation Tribunal*)
- Victoria Park Primary Academy
- Walsall City Academy Trust Limited
- Walsall Studio School - The Vine Trust
- Warren Farm Primary School
- Washwood Heath Academy
- Waverley Studio School
- West Walsall E-ACT Academy
- Westwood Academy
- Whitley Academy
- Wilson Stuart School
- Windsor High School and Sixth Form
- WMG Academy for Young Engineers
- Woden Primary - Central Learning Partnership Trust
- Wodensborough Academy - Ormiston Academies Trust
- Wolverhampton Homes
- Woodhouse Primary Academy - Education Central MAT
- Wood Green Academy
- Woodlands Academy
- Woodlands Academy of Learning
- Yardleys School
- Yarnfield Academy - Ninestiles Academy Trust

OTHER BODIES WITH NO ACTIVE MEMBERS

- Bickenhill Parish Council
- Sandwell Homes Limited

Participating Employers of the Fund At 31 March 2014

COMMUNITY OF INTEREST ADMISSION BODIES - ADMITTED BODIES

WITH ACTIVE MEMBERS

- 4 Towers TMO Limited
- Acivico (Building Consultancy)
- Age Concern Construction and Facilities Management)
- ACUA Limited
- Age Concern Birmingham
- Age Concern Birmingham (VSOP)
- Age Concern Wolverhampton - *terminated 31 March 2014*
- Aston University - *terminated 31 May 2013*
- BID
- Black Country Consortium Limited
- Black Country Museum Trust Limited (The)
- Black Country Partnership NHS Foundation Trust
- Bloomsbury Local Management Organisation Limited
- BME United Limited
- Broadening Choices for Older People
- Brownhills Community Association Limited
- Bushbury Hill Estate Management Board Limited
- Chuckery Tenant Management Organisation Limited
- Coventry Heritage and Arts Trust - *terminated 31 July 2013*
- Coventry Law Centre Limited
- Coventry Sports Trust Limited
- Culture Coventry
- CSW Partnership Limited
- Delves East Estate Management Limited
- Dovecotes TMO
- Edith Cadbury Nursery School
- Family Care Trust
- Friendship Care and Housing Limited
- Heart of England Care - *terminated 2 June 2013*
- Home Start Northfield
- Home Start Stockland Green/Erdington
- Home Start Walsall
- Leamore Residents Association Limited
- Leisure and Community Partnership Limited - *terminated 30 September 2013*
- Lieutenancy Services (West Midlands) Limited
- Life Education Centres West Midlands
- Light House Media Centre
- Manor Farm Community Association
- Marketing Birmingham Limited
- Midland Heart Ltd
- Millennium Point Trust
- Murray Hall Community Trust Limited
- Murray Hall Community Trust (Oldbury)
- Murray Hall Community Trust (Rowley)
- Murray Hall Community Trust (Wednesbury)
- Museum of British Road Transport Trust (Coventry) Limited - *terminated 31 July 2013*

- Mytime Active
- New Heritage Re-Generation Ltd
- New Park Village Tenant Management Organisation
- Northern Housing Consortium Limited
- Optima Community Association
- Palfrey Community Association
- Penderels Trust Limited (The)
- Pool Hayes Community Association
- Riverside Housing Association Limited (*formerly Riverside Group Limited*)
- S4E Ltd
- Sandwell Arts Trust - *terminated 30 November 2013*
- Sandbank Tenant Management Organisation Limited
- Sandwell Community Caring Trust (The)
- Sandwell Community Caring Trust (Sandwell Care Homes)
- Sandwell Inspired Partnership Services
- Sandwell Leisure Services
- Sickle Cell and Thalassaemia Support Project (Wolverhampton)
- Solihull Care Limited
- St Columba's Day Care Centre
- Steps to Work (Walsall) Ltd
- Titan Partnership
- Voyage Care Limited
- Walsall Housing Group Limited
- WATMOS Community Homes
- West Midlands Transport Information Services Limited - *terminated 20 April 2013*
- Whitefriars Housing Group Limited
- Wildside Activity Centre
- Wolverhampton Grammar School
- Wolverhampton Network Consortium - *terminated 30 November 2013*
- Wolverhampton Voluntary Sector Council

WITHOUT ACTIVE MEMBERS

- Adoption Support
- All Saints Haque Centre
- Aquarius Action Projects
- Asian Welfare Centre
- Asian Women's Adhikar Association (AWAAZ)
- Belgrade Theatre Trust (Coventry) Limited
- Bilston and Ettingshall SureStart
- Birmingham and Solihull Connexions Services
- Birmingham and Solihull Learning Exchange (The)
- Birmingham Heartlands Development Corporation
- Black Business in Birmingham
- Black Country Connexions
- Black Country Museum Development Trust (The)
- Burrowes Street Tenant Management Organisations Limited

- BXL
- Cannon Hill Trust (*now Midlands Arts Council*)
- Cerebral Palsy Midlands
- Community Justice National Training Organisation
- Coventry Voluntary Service Council
- CV One Limited
- Druids Heath TMO
- Dudley Zoo Development Trust
- East Birmingham Family Service Unit
- Heath Town Estate Management Board
- Job Change Limited
- Metropolitan Authorities Recruitment Agency (METRA)
- Moseley and District Churches Housing Association Limited
- National Urban Forestry Unit
- National Windows (Homes Improvements) Limited
- Newman College
- Priory Family Centre CIC Limited
- Relate
- Roman Way Estate CIC
- Sandwell Regeneration Company Limited
- Smethwick Asra Limited
- Solihull Care Trust
- Solihull Community Caring Trust
- South Birmingham Family Services Unit
- South Warwickshire Tourism Limited
- Springfield/Horseshoe Housing Management Co-operative Ltd
- St Basil's Centre
- Sunderland ARC Limited
- The Chris Laws Day Care Centre for Older People
- TSB Bank plc (*formerly Birmingham Municipal Bank*)
- University of Birmingham
- University of Warwick
- Walsall Enterprise Agency Limited
- Walsall Regeneration Company Limited
- Wednesbury Action Zone
- West Bromwich Afro-Caribbean Resource Centre
- West Midlands Councils (*formerly West Midlands Leaders Board*)
- West Midlands (West) Valuation Tribunal
- West Midlands Examinations Board (The)
- West Midlands Local Authorities Employers' Organisation
- Wolverhampton Community Safety Partnership
- Wolverhampton Development Corporation Limited
- Wolverhampton Family Information Service Limited
- Wolverhampton Race Equality Council

Participating Employers of the Fund At 31 March 2014

TRANSFeree ADMISSION BODIES

WITH ACTIVE MEMBERS

- Action for Children (Smethwick)
- Action for Children (West Bromwich)
- Agilisys Limited (Rowley/Smethwick)
- Agilisys Limited (OCOS/WODO/Tipton)
- Alliance in Partnership - Camp Hill
- Alliance in Partnership - Ernesford Grange
- Alliance in Partnership - President Kennedy
- Alliance in Partnership - Stoke Park
- Amey Highways Limited
- Amey LG Limited
- Aspen Services Ltd (Gosford Park)
- APCOA Parking (UK) Limited - *terminated 13 February 2014*
- Balfour Beatty Living Places (Coventry) (*previously Balfour Beatty Workplace Limited - Coventry*)
- Barnardos (Sandwell)
- BAM Construct UK Limited
- Bespoke Cleaning Services Limited
- British Telecom plc - *terminated 31 March 2014*
- Capita IT Services Limited
- Call First Cleaning
- Carillion (Highfield & Pennfields)
- Cofely Work Place Limited (*formally Balfour Beatty Workplace Limited - Birmingham*)
- Creative Support Limited
- DRB Contract Cleaning Limited (Hawthorn School)
- DRB Contract Cleaning Limited (Yew Tree Primary)
- DRB Contract Cleaning Limited (Wychall Primary School)
- Enterprise Managed Services Ltd - Solihull
- Enterprise Managed Services (W-ton)
- Enterprise AOL Managed Services (Telford/Wrekin)
- Elite Cleaning and Environmental Services
- European Electronique Ltd (Tile Hill School)
- Galliford (UK) Limited
- Harrison Catering Services Limited
- Housing 21
- Initial Catering Services (Rowley)
- Initial Catering Services Limited (Smethwick)
- Integral UK Limited
- Interserve FM Limited (Rowley Campus)
- Interserve FM Limited (OCOS/WODO/Tipton)
- KGB Cleaning & Support Services Limited (Bishop Ullathorne)
- KGB Cleaning and Support Services Limited (Alderbrook)
- KGB Cleaning and Support Services Ltd (Lyndon)
- Lawrence Cleaning Limited (Parkfields)
- Lawrence Cleaning Limited (St Stephens)
- Leisure Living Limited

- Lend Lease Construction (EMEA) Limited (Four Dwellings School)
- Lend Lease Construction (EMEA) Limited (E-ACT)
- Lend Lease Construction (EMEA) Limited (George Dixon)
- Lend Lease Construction (EMEA) Limited (Moseley School)
- Lend Lease Construction (EMEA) Limited (Park View School)
- Lend Lease Construction (EMEA) Limited (Saltley School)
- Lend Lease Construction (EMEA) Limited (Stockland Green Broadway School)
- Lend Lease Construction (EMEA) Limited (Waverley School)
- Lend Lease FM Limited (Broadway School)
- Lend Lease FM (EMEA) Limited (George Dixon School)
- Lend Lease FM (EMEA) Limited (HM and Stockland Green School)
- Lend Lease FM (EMEA) Limited (International School)
- Lend Lease FM (EMEA) Limited (Moseley School)
- Lend Lease FM (EMEA) Limited (Park View School)
- Lend Lease FM (EMEA) Limited (Saltley School)
- Mears Group plc
- Mears Limited
- Mitie PFI Limited
- Mouchel Limited
- NSL Limited (Birmingham)
- NSL Limited (Solihull)
- Pell Frishman Consultants Limited
- Places For People Leisure Limited (Wolverhampton)
- Places For People Leisure Limited (Harborne Pool)
- Premier Security Services Limited
- Premier Support Services Limited (Alumwell Junior School)
- Premier Support Services Limited (Alumwell Infant School)
- Premier Support Services Limited (St Edmund Campion School)
- Premier Support Services Limited (Hodge Hill School)
- Premier Support Services Limited (Streetly School) - *terminated 27 October 2013*
- Premier Support Services Limited (Trinity RC)
- Quadron Services Limited
- Redcliffe Catering Limited (Calthorpe School)
- Regent Office Care Limited (COWAT)
- Regent Office Care Limited (Henley College)

- Regent Office Care Limited (Willenhall)
- Serco Limited (Sandwell)
- Serco Limited (Walsall) - *terminated 31 May 2013*
- Service Birmingham Limited
- Sodexo Limited
- Tarmac Limited
- Taylor Shaw Limited (Colton Hills)
- Taylor Shaw Limited (COWAT)
- Taylor Shaw Limited (Great Barr School)
- Willmott Dixon Partnership Limited (North Contract)
- Willmott Dixon Partnership Limited (South Contract)

WITHOUT ACTIVE MEMBERS

- Accord Operations (Birmingham)
- Alliance in Partnership - Aston
- APCOA Parking (UK) Limited Solihull
- AWG Facilities Services Limited
- Birmingham Accord Limited
- Bovis Lend Lease Management Services
- Central Parking Systems
- Enterprise (AOL) Limited (Shrewsbury)
- Enterprise (AOL) Limited (Shropshire)
- Forest Community Association
- GF Tomlinson Birmingham Limited
- Icare GB Limited
- Interserve Construction Limited (Smethwick Campus)
- Interserve Construction Limited (OCOS/WODO/Tipton Schools)
- Interserve Construction Limited (Rowley Campus)
- Interserve Facilities Management Ltd (Smethwick)
- JDM Accord Limited (Shrewsbury & Atcham)
- JDM Accord Limited (Shropshire)
- JDM Accord Limited (Tamworth)
- JDM Accord Limited (Telford & Wrekin)
- Kite Food Services Limited
- Lawrence Cleaning Limited (Woodthorne School)
- Liberata UK Limited
- Methodist Homes for the Aged
- Mitie Cleaning (Midlands) Limited - Birmingham City Council
- Mitie Managed Services (S&SW) Limited
- Mitie Managed Services (S&SW) Limited - Coventry
- Mitie Cleaning (Midlands) Limited - Wednesfield
- Mitie Property Services (UK) Limited
- MLA West Midlands
- Morrison Facilities Services Limited
- Redcliffe Catering Limited (Bordesley Green Girls School)
- Redcliffe Catering Limited (Camp Hill School)

Participating Employers of the Fund At 31 March 2014

TRANSFEEE ADMISSION BODIES

- Regent Office Care Limited (Hereward)
- Regent Office Care Limited (City College, Coventry)
- Regent Office Care Limited (Whitefriars)
- Research Machines plc
- RM Education plc
- Revenue Management Services
- Select Windows (Homes Improvements) Limited
- Serco Limited (Stoke)
- Service Team Limited
- Strand Limited
- Superclean Services
- Target Excel plc (Magistrates Courts)
- Target Excel plc (Solihull MBC)
- Target Excel plc (Walsall MBC)
- Taylor Shaw Limited (St Albans)
- Taylor Shaw (Hodge Hill)
- Technology Innovation Centre
(terminated 31 March 2009)
- Temple Security Limited
- Thomas Vale Construction plc
- Veolia Environmental Serviced Cleanaway (UK) Limited
- Vertex Data Science Limited
- Wates Construction Limited (Birmingham)
- West Midlands E-Learning Company

OTHER MAJOR EMPLOYERS WHO HAVE PARTICIPATED IN THE FUND

- Birmingham International Airport plc
- Department of Transport
- Department of Health and Social Security
- Severn Trent Water Authority
- West Midlands Magistrates Courts Committee

Member Training Report

The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator and, accordingly, an increased emphasis on trustee training. The trustee training policy was approved in November 2012 with an agreed target of three days (21 hours) per annum. By implementing and participating in the trustee training policy, Committee members as well as officers of the Fund 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.

A major factor in the governance arrangements of the Fund is to ensure that Committee and Forum members and officers have the relevant skills and knowledge through application of the *CIPFA Knowledge and Skills Framework*. Six areas of knowledge and skills have been identified as core technical requirements for those members associated with LGPS pension funds:

Pensions legislation and governance context	Pension accounting and auditing standards	Financial services procurement and relationship management
Investment performance and risk management	Financial markets and products knowledge	Actuarial methods, standards and practices

Arrangements for regular training are in place with training delivered through a number of methods including external seminars and events, Committee meetings, specific briefings and research material. Training activity undertaken is recorded on a training database and quarterly returns are sent out to all trustees asking them to record additional activity such as online study or reading.

In the year 2013/14, training included:

- induction training and one-to-one training for all new and returning Committee and Forum members;
- presentations to the Pensions Committee;
- risk workshop;
- investment training covering a number of asset classes, global markets and property investment strategy;
- seminars and conferences offered by industry-wide bodies such as LGC, NAPF and LAPFF;
- Fund events such as employer AGM and seminars covering actuarial valuation, LGPS update and investment strategy; and
- LGPS 2014 update, scheme changes and consultations.

All new members undertook induction training and a total of 302.50 training hours were undertaken in 2013/14 with eight members exceeding or near the three days (21 hours) requirement.

ESG investing (environmental, social and governance) is another area of member development and training. The Fund is a member of LAPFF, which is a body consisting of 60 UK public funds that engages with investee companies on issues such as climate change, child labour and breaches of the Combined Code. The Chair of the Pensions Committee attends LAPFF meetings and its activities are reported on a quarterly basis to other members of the Pensions Committee. LAPFF also advise on other areas including best practice and members receive presentations from managers specialising in ESG investment.

LAPFF holds an annual two-day conference which Committee and Forum members attended, covering additional topics in addition to those mentioned above and issues addressed at the 2013 conference included:

- the future of the Local Government Pension Scheme;
- national LGPS procurement framework, "How to save time and money";
- licence to operate - community responsibilities of companies;
- social impact investing;
- good directors;
- media standards debate;
- investor collaboration; and
- capitalism without owners will fail.

Details of the training reports and presentations provided to the Pensions Committee and Investment Advisory Sub-Committee during 2013/2014 are as follows:

Property review and annual strategy 2013/14 - CBRE	26 June 2013
ESG investments - Bridges Ventures Review of absolute return portfolio - Hymans Robertson	3 July 2013
An overview of hedge funds - BlackRock Insurance-linked investments - Credit Suisse Agriculture sub-asset class - Permira	17 September 2013
Emerging markets - Foreign and Colonial	11 December 2013
An overview of global custody - HSBC	26 March 2014

Member Training Report

In summary, the Fund invests significant resources into the development of its Committee and Forum members, firmly believing that the returns over the long term are essential to the effective governance and management of the Fund.

Area	Pensions Committee Reports	Presentation	Sub-Committee				Off-site Training & Education
			Reports	Presentation	Conferences/Seminars	Visits	
Investment governance	✓				LAPFF December Conference	Partial	✓
Investment							
i) Strategies	✓	Occasionally	✓	Occasionally		✓	✓
ii) Asset use	✓			✓	✓		✓
iii) Corporate governance	✓			✓			
iv) Economies	✓	Quarterly		✓	✓		✓
Role of members	✓ (Annual/Website)						

Introduction to the Fund

The Fund's core objectives

- to become a top-performing fund;
- to achieve target investment returns;
- to provide excellent customer service;
- to improve funding levels.

The aims of the Fund

- To encourage membership;
- To enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies, having regard to the benefits being paid and those due to be paid at a future date;
- To manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirement which lead to a strain on the Fund;
- To ensure that sufficient resources are available to meet all liabilities as they fall due via maximising returns from investments within reasonable risk parameters;
- To achieve excellent customer care whilst continuing to improve service delivery.

The issues and challenges facing the Fund

- **The affordability of the LGPS, which has various elements:**

- delivering the investment strategy and returns over time that ease the pressure on funding levels;
- responding to legislation changes in benefits awarded (such as LGPS 2014);
- monitoring and working to increase membership of the Fund;
- communicating Fund issues to interested parties;

- **Demonstrating value for money.**

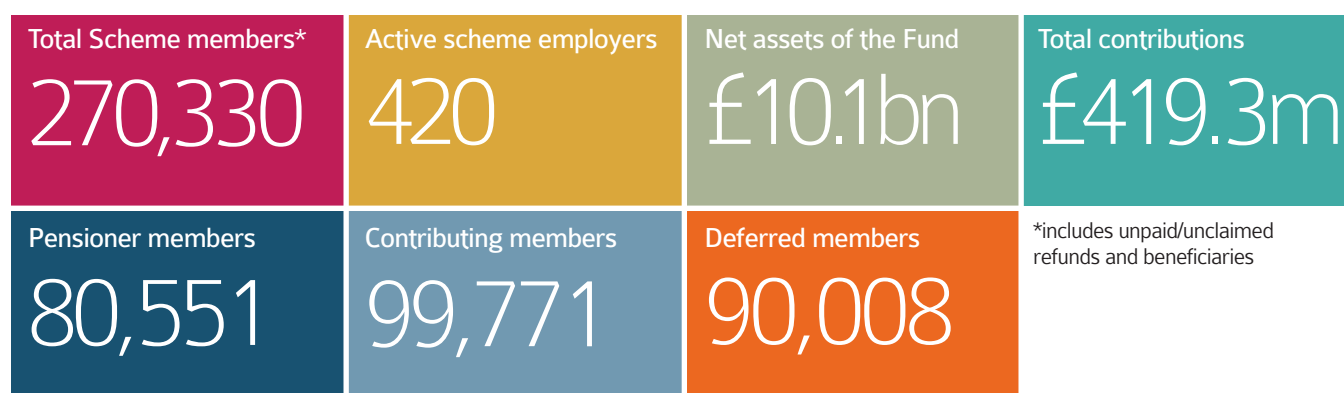
- **Demonstrating good governance in terms of the arrangements for managing the LGPS in the West Midlands, the individual investment holdings and the decision-making process.**

- **Responding to the expectations of Government, the public, interested groups, etc. around:**

- corporate company behaviour of the Fund's investments;
- sustainability;
- social responsibility;
- demand for effective and efficient communication and/or access to information;
- requirement for public organisations to demonstrate efficient delivery of services and value-for-money.
- responding to changes in regulation, including investment, corporate governance and administration activities.

The Fund has 270,330 members and 420 scheme employers as at 31 March 2014. The Fund aims to provide a quality service delivered cost effectively and within a published timescale. There are three main categories of membership, comprising of actively contributing members (99,771), members who have left employment or opted out of the scheme have a deferred entitlement to pension benefits (90,008) and members in receipt of pensions (80,551 including beneficiaries).

A diversified portfolio of assets amounting to £10.1bn is managed primarily in-house by a team of investment professionals, having due regard to risk and return objectives and liability requirements.



Operations Report

Since the last report, we have continued to implement a 'performance culture' ethos into the daily operational activities of the Fund. This year, pension administration undertook a comprehensive review of its key performance indicators to ensure these were aligned to The Pension Regulator's (TPR) requirements and those of the business's needs.

The focus will now move onwards to consistently improving data quality standards following TPR parameters. Operational staff completed their professional qualifications in pensions and project management (Prince 2). These qualifications are important as they will assist staff to deliver changes to regulations and help employers understand their responsibilities, in terms of data exchange, and the changes required to payroll systems for these new regulations.

Of particular importance was the Fund's focus on implementing the changes to the Local Government Pension Scheme (LGPS) from 1 April 2014. The changes included many aspects including working with our software provider to ensure system changes were implemented, developing communication strategies to ensure all stakeholders were kept up to date with the important changes to the way pensions are calculated and training Fund staff and employers on new responsibilities and data requirements for the new Scheme.

The Fund also undertook the triennial actuarial valuation in conjunction with the Fund actuary. The final valuation outcomes were achieved after extensive consultation and negotiation with participating employers. This was achieved in the context of a difficult economic climate with significant financial pressures for the organisations concerned. In addition, the Fund published a *Funding Strategy Statement (FSS)* aligned to the valuation, which sets out the funding parameters and identifies how the employers' liabilities will be met going forward.

As with the previous year, the number of new employers admitted to the Fund has grown exponentially. As local authorities continued with outsourcing programmes, more organisations required admitted body status and more schools elected to convert to academy status. The current number of employers participating in the Fund stands at over 420 as at March 2014.

Pensions Committee and JCF receive a quarterly statistical report demonstrating trends and service increases, particularly at notification periods for deferred and annual benefits statements. Fund administration staff continue to focus heavily on the need to cleanse all data being received from employers; this is a vital exercise especially with forthcoming scheme changes and the emphasis placed upon this area by TPR.

The Fund held both an annual general meeting and a mid-year review for participating employers to discuss a number of relevant issues which also increased the emphasis on partnership working. These meetings were an important part of the continual engagement process with employers.

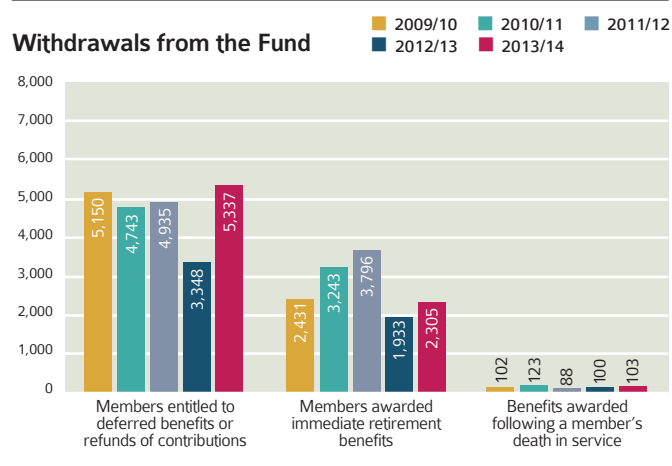
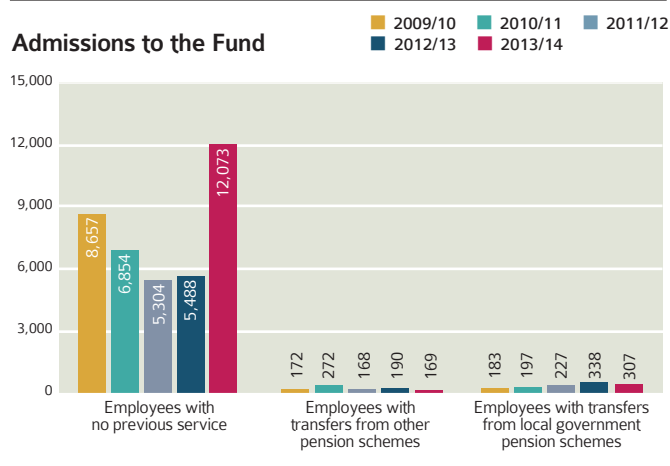
The Fund aims to revise its current *Pensions Administration Strategy* to represent a comprehensive reflection of its key objectives in line with the *Service Plan* and desired outcomes. One of the key aspects in this area will be the inclusion of all employers in electronic working by 2015.

At the Fund, continuous improvement is always a key consideration in our daily operational activities as we aim to work together and in partnership with our employers, service contractors and partners to put the requirements and expectations of all our customers first in the delivery of our service. We strive to make the complex topic and function of pension administration into a simpler, straightforward service for all our customers. The Fund is committed to this through high team and individual performance.

In terms of the current scheme, membership has not varied tremendously as the table below denotes; however, as a fund, we continue to monitor trends, including opt-out patterns, and utilise events, publications and employer engagement to ensure a robust membership for the future via targeted member participation campaigns.

Since April 2013, the Fund continues to see improvements in longevity as shown in the table on the next page; however, during the year, the Fund dealt with 150 death-in-service cases. A total of 6,016 members have joined the scheme since 2013, of which 338 were employees transferring in from other local government funds and 190 transferred into the scheme from private schemes or other pension arrangements.

Membership Movements



Operations Report

There were 1,933 retirements where members had left LGPS with immediate entitlement to benefits and a further 1,751 benefits were put into payment following the member reaching an age at which a deferred benefit could be bought into payment automatically, or where the member had elected to do so earlier than their normal retirement age. The Fund also dealt with deferring members who ceased membership of the Fund before becoming entitled to the payment of immediate benefits. In total, there were 3,348 such cases.

At the Fund, continuous improvement is always a key consideration in our daily operational activities as we aim to work together, and in partnership with our employers, service contractors and partners to

put the requirements and expectations of all our customers first in the delivery of our service. We strive to make the complex topic and function of pension administration into a simpler, straightforward service for all our customers.

Simon Taylor

Acting Head of Pensions Administration,
West Midlands Pension Fund

Date: September 2014

Number of Members

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active	-	-	-	501	3,526	6,055	8,794	9,787	14,092	18,537	18,205
Beneficiary pensioner	9	45	135	240	99	13	11	22	79	173	357
Deferred	-	-	-	54	1,188	4,669	7,281	8,070	11,547	15,381	15,283
Deferred ex-spouse	-	-	-	-	-	-	-	1	17	43	52
Pensioner	-	-	-	-	-	-	5	18	79	289	693
Pensioner deferred	-	-	-	-	-	-	-	-	-	4	1
Pensioner ex-spouse	-	-	-	-	-	-	-	-	-	-	-
Preserved refund	-	-	-	9	56	250	616	853	1,156	1,552	1,468
	9	45	135	804	4,869	10,987	16,707	18,751	26,970	35,979	36,059

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	12,796	5,920	1,318	230	9	1	-	-	-	-	99,771
Beneficiary pensioner	555	847	1,318	1,571	1,865	1,871	1,279	699	146	21	11,355
Deferred	13,242	4,856	268	75	35	78	52	14	-	-	82,093
Deferred ex-spouse	54	14	-	-	-	-	-	-	-	-	181
Pensioner	3,611	14,678	18,703	12,611	8,712	5,702	2,845	1,035	173	16	69,170
Pensioner deferred	5	3	-	-	-	-	-	-	-	-	13
Pensioner ex-spouse	-	7	11	3	2	2	1	-	-	-	26
Preserved refund	1,064	491	58	40	41	20	23	22	2	-	7,721
Total	31,327	26,816	21,676	14,530	10,664	7,674	4,200	1,770	321	37	270,330

Key Membership Statistics

Year	Active	Deferred	Preserved refunds	Pensioner	Beneficiary	Totals
31 March 2010	104,612	69,605	8,181	56,433	10,438	249,269
31 March 2011	102,011	73,040	8,121	59,833	10,688	253,693
31 March 2012	95,478	76,422	8,045	64,280	10,948	255,173
31 March 2013	97,330	78,679	7,830	66,461	11,024	261,324
31 March 2014	99,771	82,287	7,721	69,170	11,381	270,330

Active members

The Fund has a total active membership of **99,771**. Since 31 March 2013, the number of contributing employees in membership has increased by **2,441**.

Deferred members

These are former contributors who have left their pension rights with the Fund until they become payable at normal retirement date.

Pensioner members

Pensions and other benefits amounting to **£472m** each year are paid to retired members,

Financial Services Report

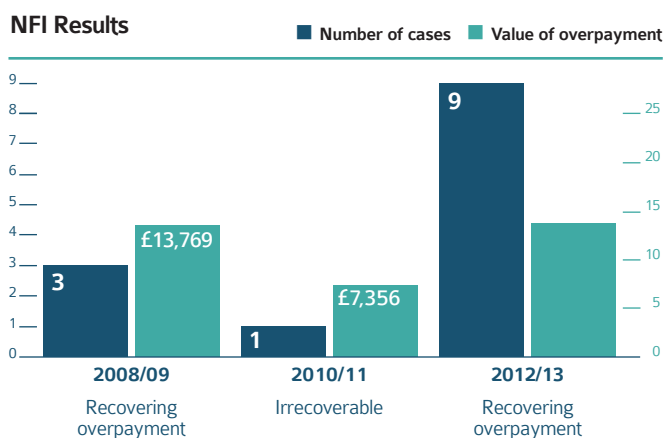
The primary functions performed by the Financial Services division are the payment of pensions, the collection of employer and employee contributions and day-to-day accounting for the Fund.

The administration and payroll computer system is used to pay over £472 million per year to over 80,000 pensioner and beneficiary members. The number of members being paid has increased by 4% in the year, which reflects the continued consequences of employer staffing reductions and increased longevity of existing members.

The Fund continues to seek to minimise, and recover, where appropriate, any overpayments made to members. The majority of these cases arise from late notification of a member's death as shown in the following table:

Year	Pension overpayment	% of gross pension
2009/10	£114,321.45	0.04%
2010/11	£118,864.39	0.04%
2011/12	£182,531.21	0.06%
2012/13	£168,539.52	0.05%
2013/14	£235,970.78	0.06%

The Financial Services team is also responsible for the Fund's participation in the National Fraud Initiative, which is a biennial process undertaken in conjunction with the Audit Commission. Data has been analysed for the year 2012/13 and the necessary recoveries, arising from identified overpayments are being pursued. The results from previous years are shown in the following table:



Basic contributions to the Fund of £419.3 million were collected in the year, and these are analysed in detail below.

Employer	Employee
£309.4m	£109.9m
Birmingham City Council	£114,503,107.89
Coventry City Council	£32,901,815.18
Dudley MBC	£31,918,399.63
Sandwell MBC	£34,130,862.69
Solihull MBC	£16,974,746.28
Walsall MBC	£30,907,711.50
Wolverhampton City Council	£32,874,049.42
Others	£125,056,144.07

Work has recently been undertaken to adjust the control structures used to ensure that all contributions due are collected by their required dates.

Riz Dhanani
Fund Accountant,
West Midlands Pension Fund

Date: September 2014

Communications Report

During 2013/2014, the Fund continued to innovate in the ways in which to communicate with our stakeholders. The Fund is required to have a formal communications policy by the scheme's rules. This policy currently sets out the following:

- How the Fund communicates with its stakeholders.
- The format, frequency and method of communication.
- How the Fund promotes the LGPS to prospective members and employers.

The Fund revises the *Communications Policy Statement* annually, with it being formally agreed by the Pensions Committee every two years to ensure it reflects the wishes of the members and utilises any available advancements in technology.

The primary communication activity of the past twelve months was to educate and inform members in relation to the LGPS and its changes as at 1 April 2014. This education was completed by various methods, including enclosures in benefit statements, bespoke mailings, tailored briefing notes, as well as to one-to-one meetings, roadshows and presentations.

We also ensure that all paper documentation forwarded to members is available on our website at wmpfonline.com. The Fund's website received 87,804 visits in the period 1 April 2013 to 31 March 2014, which is an increase from 57,798 for the financial year 2012/2013.

Much of the increase in traffic on the website was as a result of the Fund's self-service web portal facility which allows employers and members of the Fund to complete pensions tasks securely online. Similarly, the beginning of 2014 saw an increase in traffic to the website's dedicated LGPS 2014 areas.

Work on retirement planning events continued throughout the year with many successful sessions held in the West Midlands area. Following requests by members, the events were rotated around the area during the period, with new venues being sought to access hard-to-reach groups or areas. With the content remaining largely the same, the opportunity has been taken to also provide an update to the recent 2014 LGPS developments. The events now cover the following:

- LGPS and the benefits it provides
- Tax tips
- The 2014 LGPS

The Fund will continue to further enhance these events over coming months, along with other communication material which will benefit members regarding the intended changes in 2014 and protections in place for members already in the LGPS.

In the past year, the Fund added to its employer event schedule with a roundtable discussion aimed at employers in the summer in addition to its winter annual general meeting. These events are part of the increased employer engagement that also included monthly e-newsletters, structured training, and the establishment of an employer peer group where a cross section of employers can give their opinions on important matters relating to Fund activities.

The Fund was also delighted to be recognised for its excellence in communication during the year in corporate accreditations and industry awards nominations.

Building on the success of the web portal and electronic briefing notes issued to employers, the Fund hopes to drive further electronic communication in the coming months as we believe swift and efficient dialogue between the Fund and our customers is an expectation now and for the future.

Antony Ellis
Communications Officer,
West Midlands Pension Fund

Date: September 2014

Investment Strategy and Performance Report

Investment Strategy

Investment policy is reviewed annually. 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. The Fund's actual asset allocation as at 31 March 2014 is shown below, compared with the strategic risk bands agreed by the Pensions Committee:

Asset Allocation

Portfolio	Strategic risk bands %	Closing levels %	Closing market value £m
UK equities		10.0	1,004
Global equities		5.2	526
Overseas equities		30.7	3,100
Private equity		12.3	1,240
Total equities	45.0-65.0	58.2	5,870
UK gilts		1.9	192
Specialist fixed interest		3.3	337
Index linked gilts		6.3	639
Corporate bonds		4.8	481
Emerging market debt		2.6	264
Cash		2.6	264
Total fixed interest	15.0-25.0	21.5	2,177
Property		9.2	928
Absolute return		6.3	642
Infrastructure		2.9	293
Commodities		1.9	190
Total alternatives	20.0-30.0	20.3	2,053
Total non-equities	35.0-55.0	41.8	4,230
Total	-	100.0	10,100

All main asset classes closed within their wider strategic risk bands. The asset allocation continues to be monitored on a regular basis and the Pensions Committee is advised on a quarterly basis of any significant changes.

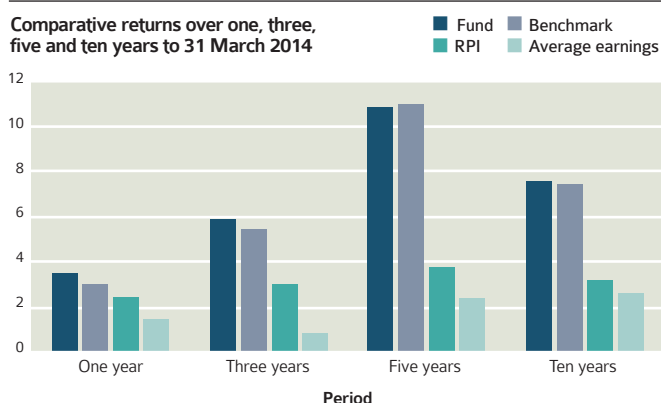
Cashflow

The Fund remains cashflow positive and £83.2 million was invested during the year, with net investment of £201.9 million made in equities offset by a reduction to cash, fixed interest and alternative investments (net disinvestment of £118.7 million). The most significant change was an increase in the Fund's exposure to emerging markets equities – allocating capital during market weakness in this area – in conjunction with the introduction of new segregated investment management arrangements.

Portfolio	Closing market value £m		Net investment £m
	£m	£m	
UK equities	1,004		-17.1
Global equities	526		-0.8
Overseas equities	3,100		+303.4
Private equity	1,240		-83.5
Total equities		5,870	+201.9
UK gilts	192		0.0
Specialist fixed interest	337		+9.0
Index-linked gilts	639		0.0
Corporate bonds	481		0.0
Emerging market debt	264		-29.9
Cash	264		-61.3
Total fixed interest		2,177	-82.2
Property	928		+36.9
Absolute return	642		-55.1
Infrastructure	293		-20.9
Infrastructure	190		+2.6
Total alternatives		2,053	-36.5
Total complementary	4,230	4,230	-118.7
Total	10,100	10,100	+83.2

Investment Performance

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



Short-term (one year)

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.

Investment Strategy and Performance Report

Medium-term (three to five years)

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.

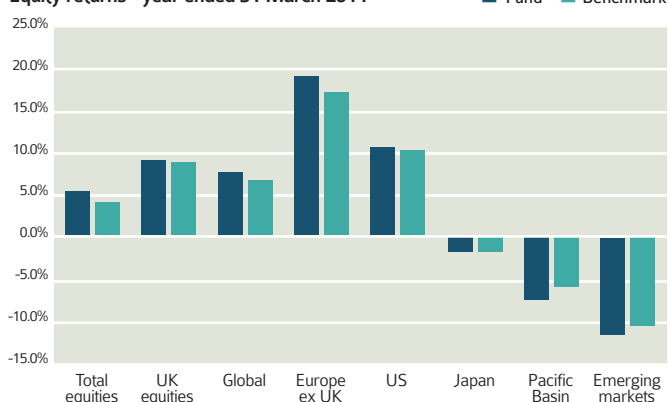
The Fund's strong five-year performance reflects the recovery in stock markets seen since 2009 following the very poor market conditions experienced during the credit crunch in the previous year. Performance of 10.9% per annum was slightly behind the benchmark return of 11.1% but was ahead of increases in RPI and average earnings.

Long-term (ten years)

The Fund's ten-year return of 7.6% per annum was slightly ahead of the benchmark of 7.5% and comfortably ahead of increases in RPI and average earnings.

Quoted Equities

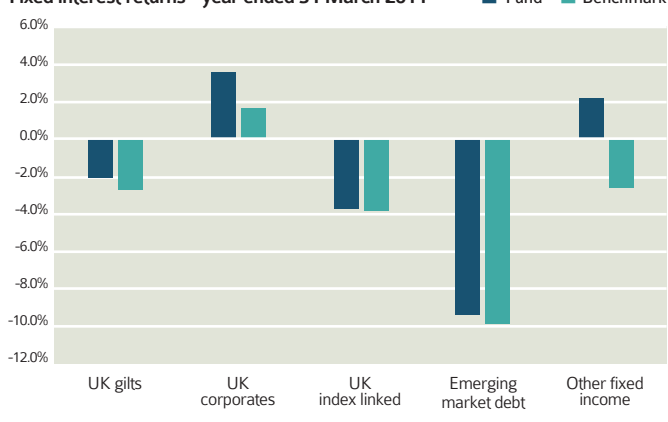
Equity returns - year ended 31 March 2014



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. Emerging markets equities, by contrast, had a poor year as did Pacific Basin markets and Japan, the latter largely due to yen weakness.

Fixed Interest Returns

Fixed interest returns - year ended 31 March 2014

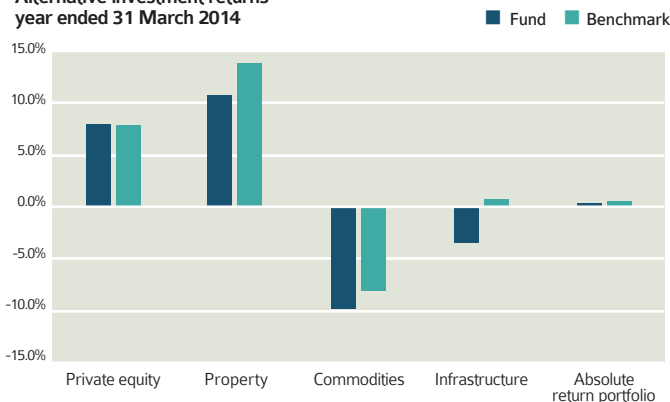


Fixed interest markets had a difficult year, in particular emerging market debt and gilts (both conventional and index-linked), reflecting the prospect of the ending of quantitative easing measures and the possibility of interest rate rises. The Fund's fixed interest portfolio outperformed, with a return of -1.9% ahead of the benchmark return of -3.6%. The corporate bond fund holdings fared notably well.

Alternative Investment Returns

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 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. 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.

Alternative investment returns - year ended 31 March 2014



Mark Chaloner

Assistant Director - Investments,
West Midlands Pension Fund

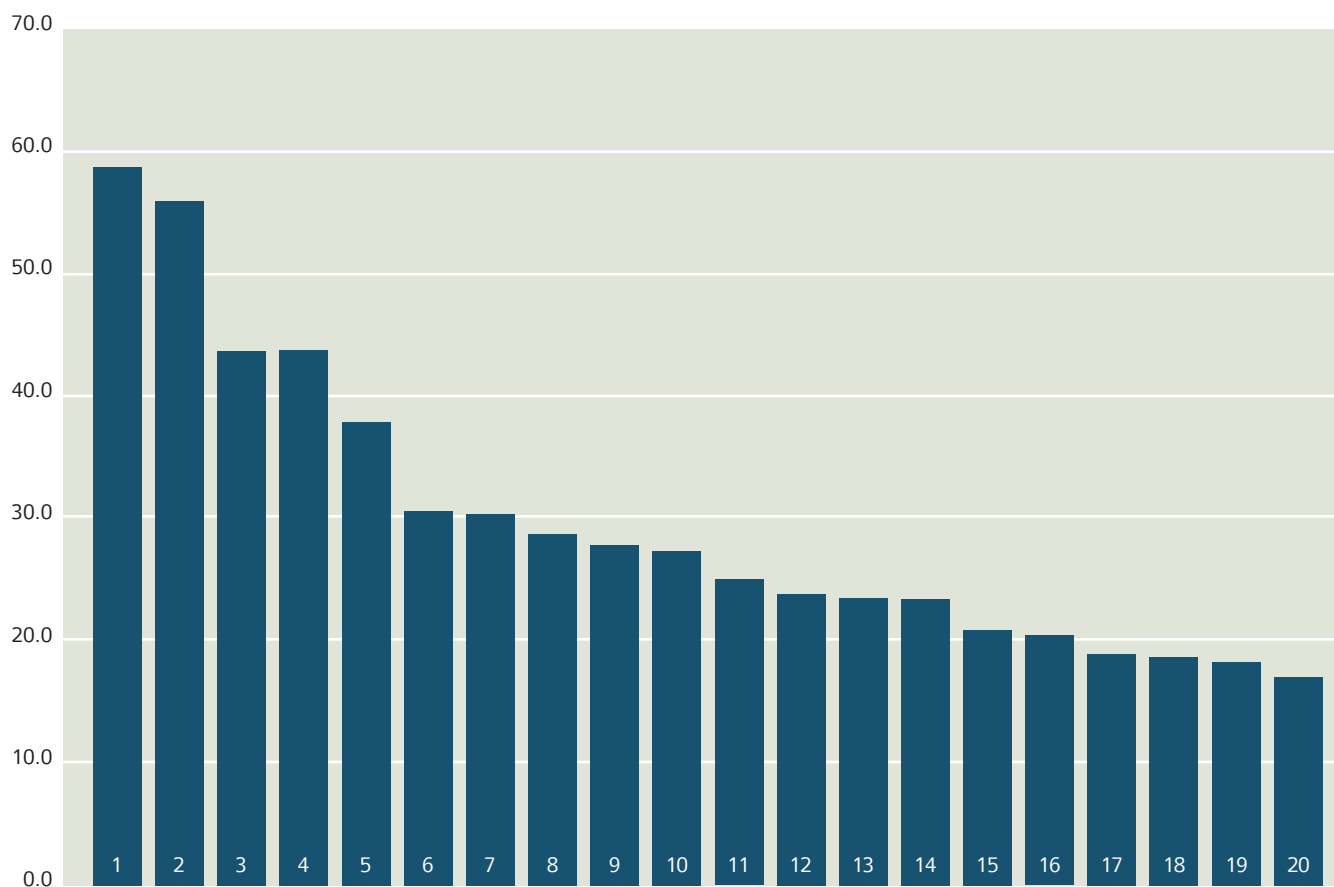
Date: September 2014

Top Twenty Equity Holdings

No.	Stock	Fund value GBP £m	% of Fund
1	Royal Dutch Shell B	58.6	0.58
2	HSBC Holdings. (Ord \$0.50)	55.9	0.55
3	Samsung Electronics	43.7	0.43
4	BP	43.7	0.43
5	GlaxoSmithKline	37.8	0.37
6	British American Tobacco	30.7	0.30
7	Diageo	30.3	0.30
8	Vodafone Group	28.6	0.28
9	BHP Billiton	27.9	0.28
10	SABMiller	27.5	0.27

No.	Stock	Fund value GBP £m	% of Fund
11	Nestle 'R'	25.0	0.25
12	AstraZeneca	23.8	0.24
13	Apple	23.4	0.23
14	Reckitt Benckiser Group	23.4	0.23
15	Exxon Mobil	20.9	0.21
16	Rio Tinto	20.5	0.20
17	Lloyds Banking Group	19.0	0.19
18	BG Group	18.7	0.19
19	Barclays	18.4	0.18
20	Commonwealth Bank of Australia	17.1	0.17

Total investment assets £10.1bn

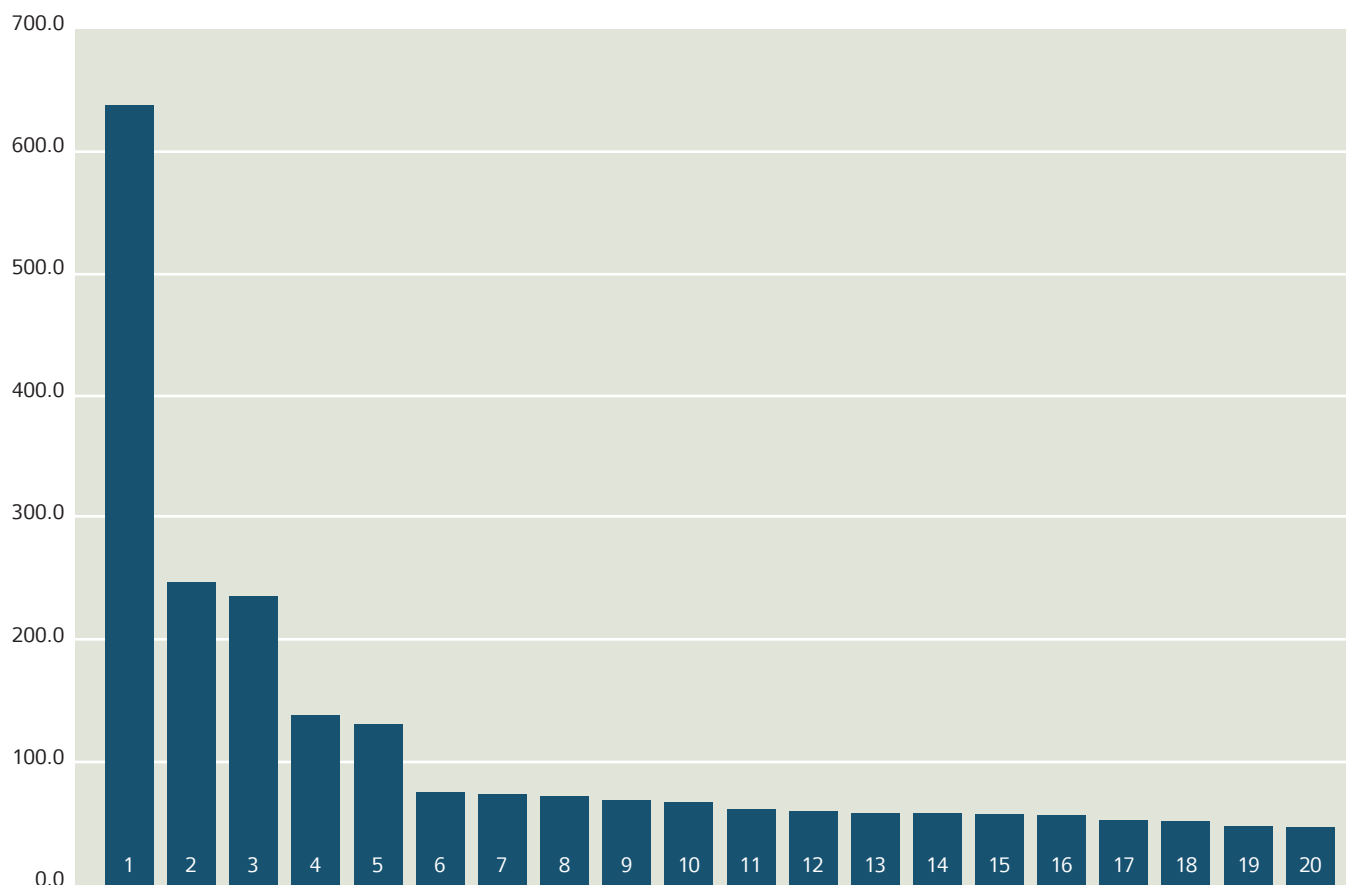


Top Twenty Indirect Holdings

No.	Stock	Fund value GBP £m	% of Fund
1	Legal & General - All Stocks Index Linked Gilts Fund	639.1	6.33
2	Schroder All Maturities Bond Fund	246.9	2.44
3	BlackRock Ascent Life European Equity Fund	236.8	2.34
4	BlackRock Global Composite Fund	140.2	1.39
5	Legal & General All Stocks Gilts Index	132.1	1.31
6	CF Ruffer Total Return Fund	76.3	0.76
7	CATCo Diversified Fund	75.2	0.74
8	Legal & General Overseas Bond Fund	74.5	0.74
9	Pioneer Emerging Market Debt Fund	70.4	0.70
10	Capital International Emerging Markets Fund	69.0	0.68

No.	Stock	Fund value GBP £m	% of Fund
11	Legal & General Invnt Grade Cp Bnd All Stks Ind	62.6	0.62
12	Capital Dynamics Asia	61.5	0.61
13	Legal & General 0 to 5 Year Gilts Index	60.5	0.60
14	Ashmore Emerging Markets Liquid Investment Portfolio	60.4	0.60
15	Aspect Diversified Fund	58.0	0.57
16	Bluebay Emerging Market Opportunity Fund	57.6	0.57
17	Advent Global Phoenix Convertible Fund	54.2	0.54
18	BlueCrest Mercantile Fund	52.2	0.52
19	Baillie Gifford Diversified Growth Fund	49.5	0.49
20	Newton Global Dynamic Bond Fund	48.1	0.48

Total investment assets £10.1bn

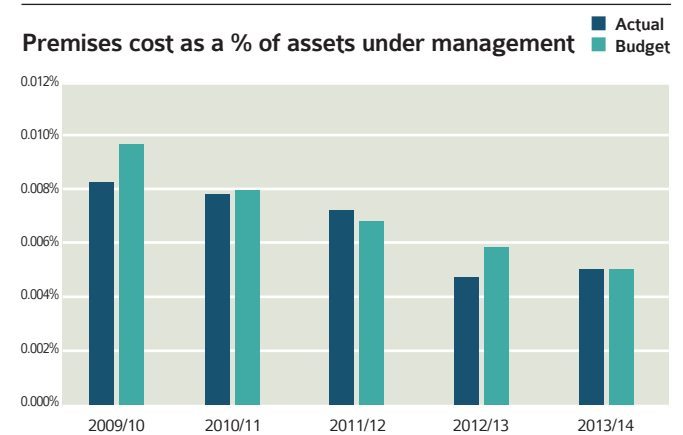
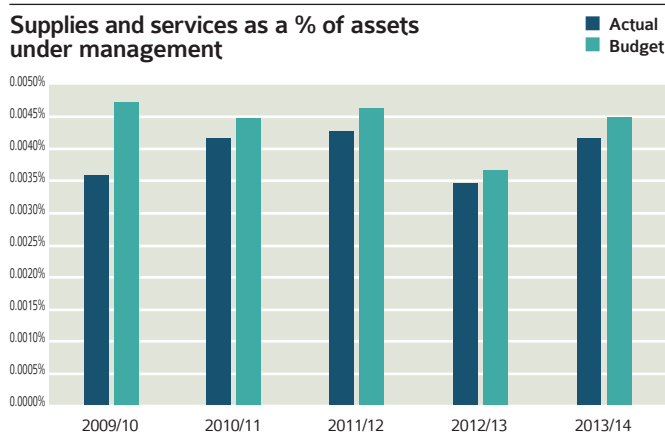
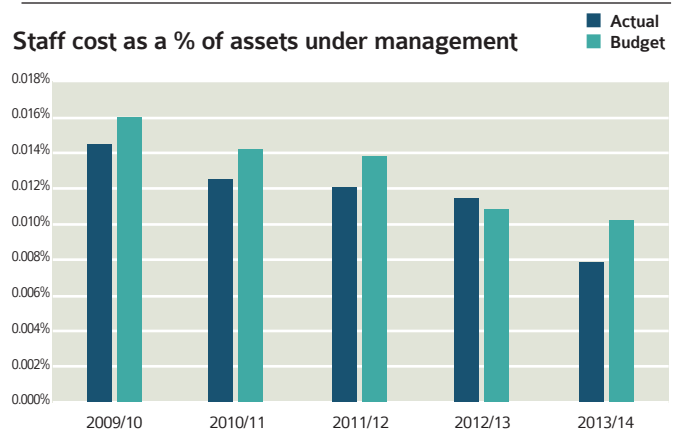
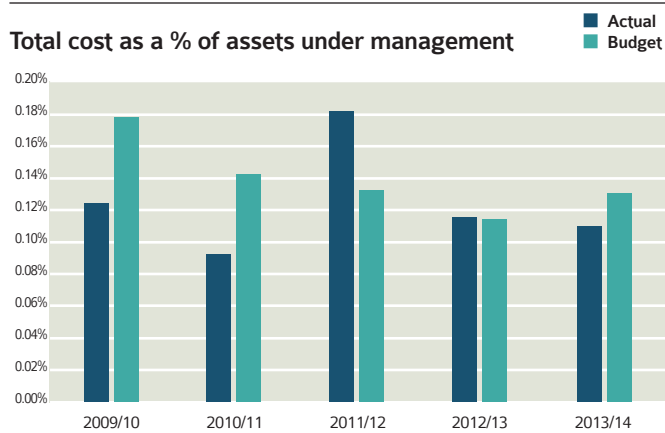


The following investment represents more than 5% of the net assets of the scheme:

31 March 2013			31 March 2014	
Market value £m	% of total market value		Market value £m	% of total market value
664.0	6.8	Security Legal & General - All Stocks Index-Linked Gilts Fund	639.1	6.3

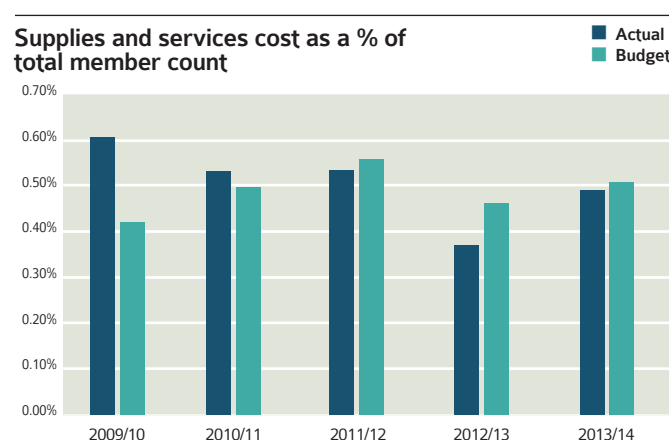
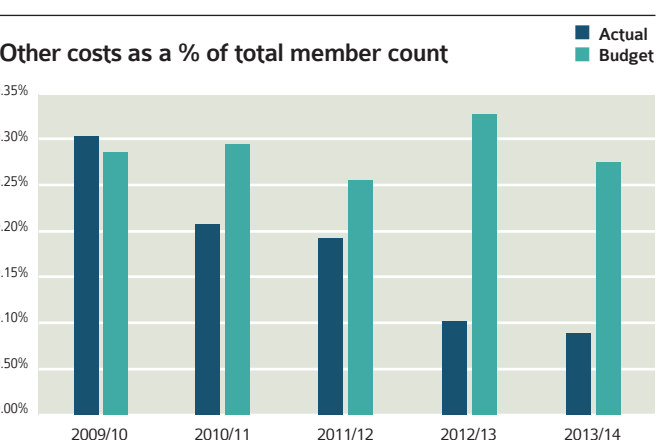
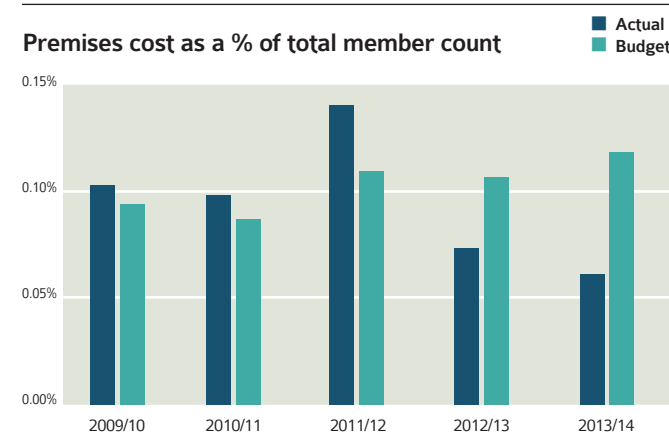
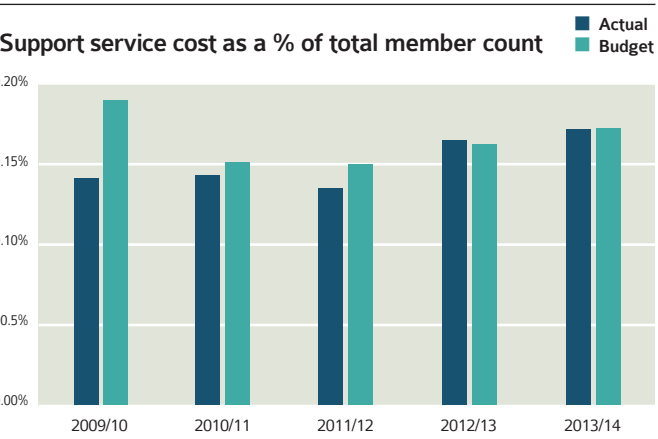
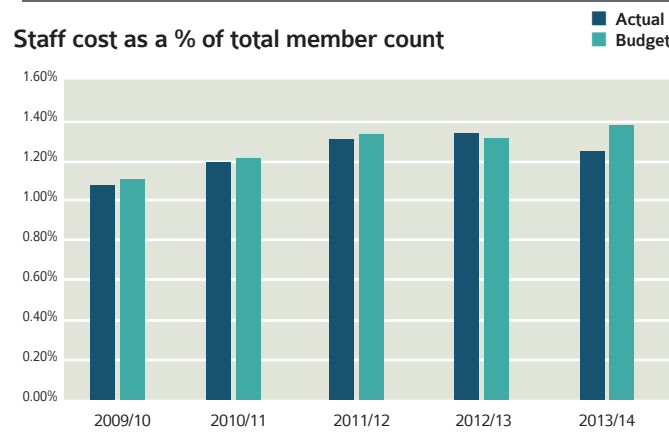
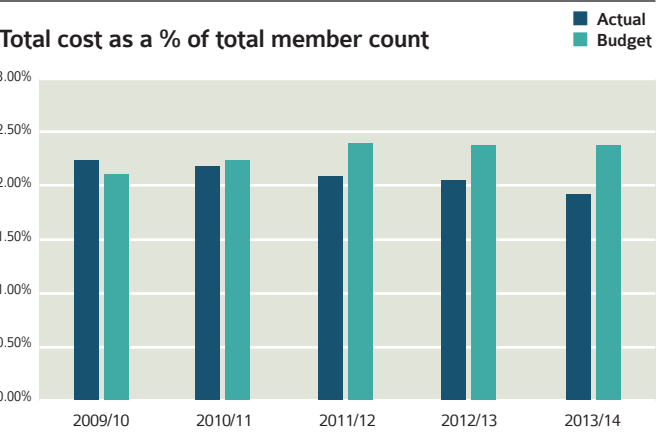
Overall Fund Statistical Information

Fund Management Unit Costs as a % of Assets Under Management 2013/2014



Overall Fund Statistical Information

Benefit Operations Costs as a % of Total Member Costs 2013/2014



Overall Fund Statistical Information

Key Membership Statistics

Year	Active	Deferred	Preserved refunds	Pensioner	Beneficiary	Totals
31 March 2010	104,612	69,605	8,181	56,433	10,438	249,269
31 March 2011	102,011	73,040	8,121	59,833	10,688	253,693
31 March 2012	95,478	76,422	8,045	64,280	10,948	255,173
31 March 2013	97,330	78,679	7,830	66,461	11,024	261,324
31 March 2014	99,771	82,287	7,721	69,170	11,381	270,330

Active members

The Fund has a total active membership of **99,771**. Since 31 March 2013, the number of contributing employees in membership has increased by **2,441**.

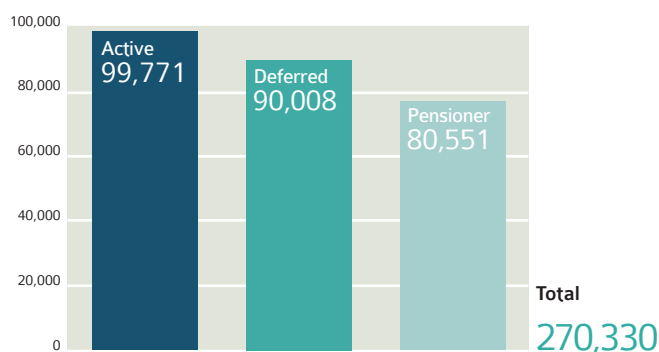
Deferred members

These are former contributors who have left their pension rights with the Fund until they become payable at normal retirement date.

Pensioner members

Pensions and other benefits amounting to **£472m** each year are paid to retired members,

Benefit Operations Staff/ Fund Member Ratios



Average Cases per Member of Benefits Operations Staff

Number of processes

Processes outstanding as at 31 March 2013

14,989

Processes completed 2013/14

139,220

Processes outstanding as at 31 March 2014

12,139

Average processes per member of staff

Processes outstanding as at 31 March 2013

139

Processes completed 2013/14

1,573

Processes outstanding as at 31 March 2014

137

Benefit Operations Membership Movement

Member Movements During the Year - Admissions to the Fund



- Employees with no previous service
- Employees with transfers from other pension schemes
- Employees with transfers from other local government pension schemes

Withdrawals from the Fund



- Members entitled to deferred benefits, etc.
- Members awarded immediate retirement benefits
- Benefits awarded following a member's death in service

Complaints

Number of Complaints

The number of complaints processes started in 2013/2014:

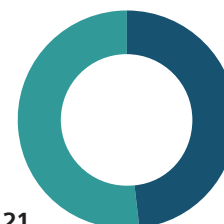
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Comparison of Operating Costs with Other Funds

CIPFA provide an annual benchmarking service for LGPS funds who choose to participate in their CIPFA Pensions Club. The 2013/2014 analysis provides a comparison of member service costs per scheme member, with the full set of participating funds.

- West Midlands Pension Fund **£19.21**
- Latest full CIPFA Club average **£20.86**

Large urban area funds have similar costs to West Midlands Pension Fund.



Overall Fund Statistical Information

Number of Members

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active	-	-	-	501	3,526	6,055	8,794	9,787	14,092	18,537	18,205
Beneficiary pensioner	9	45	135	240	99	13	11	22	79	173	357
Deferred	-	-	-	54	1,188	4,669	7,281	8,070	11,547	15,381	15,283
Deferred ex-spouse	-	-	-	-	-	-	-	1	17	43	52
Pensioner	-	-	-	-	-	-	5	18	79	289	693
Pensioner deferred	-	-	-	-	-	-	-	-	-	4	1
Pensioner ex-spouse	-	-	-	-	-	-	-	-	-	-	-
Preserved refund	-	-	-	9	56	250	616	853	1,156	1,552	1,468
	9	45	135	804	4,869	10,987	16,707	18,751	26,970	35,979	36,059

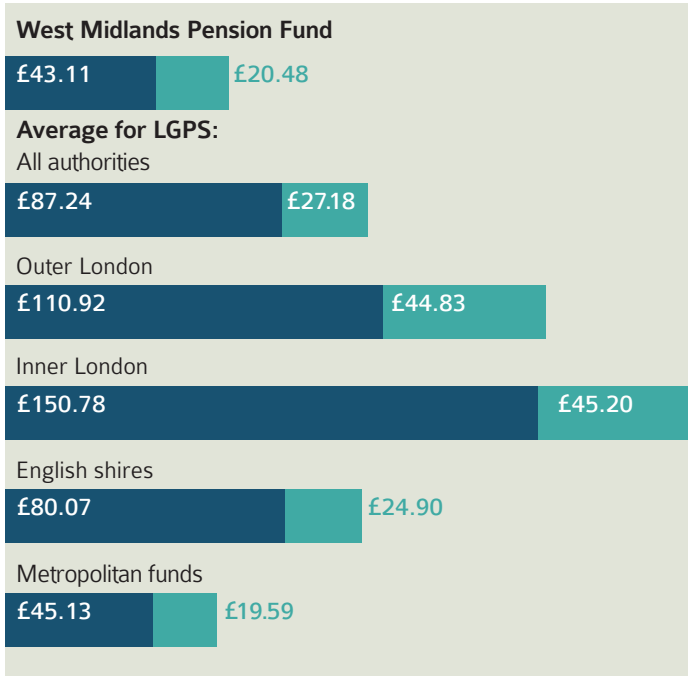
Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	12,796	5,920	1,318	230	9	1	-	-	-	-	99,771
Beneficiary pensioner	555	847	1,318	1,571	1,865	1,871	1,279	699	146	21	11,355
Deferred	13,242	4,856	268	75	35	78	52	14	-	-	82,093
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Pensioner	3,611	14,678	18,703	12,611	8,712	5,702	2,845	1,035	173	16	69,170
Pensioner deferred	5	3	-	-	-	-	-	-	-	-	13
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Total	31,327	26,816	21,676	14,530	10,664	7,674	4,200	1,770	321	37	270,330

Overall Fund Statistical Information

Comparisons of Operating Costs With Other Funds

The Government collects information from all LGPS funds – on their administration and fund management costs – on a yearly basis. The latest figures are for 2012/2013 and these show the following comparison:

- Fund management (£ per Scheme member)
- Administration costs (£ per Scheme member)



Internal Dispute Resolution Procedure (IDRP)

During the financial year 2013/2014, 17 cases were received.

Of these cases, 14 were non-medical matters and three related to ill-health matters. The latter cases were referred for independent medical opinion where appropriate.

In total, one case was upheld and 16 were dismissed.

Overall Fund Statistical Information

Management Performance - Number and Trend of Top Ten Case Types

Joiner processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
13,535	13,350	185	99%
Refund processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
287	276	11	96%
Retirement processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
2,457	2,378	79	97%
Deferment processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
6,570	6,092	478	93%
Deferred retirement processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
2,006	1,934	72	96%
Death-in-service processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
128	93	35	73%
Death in deferment processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
151	111	40	74%
Death in retirement processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
2,196	1,803	393	82%
Maintain member data processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
15,974	15,866	108	99%
Change of address and/or bank processes commenced in 2013/14...	...of which, processes completed in 2013/14	...of which, outstanding processes at 31 March 2014	Commenced and completed in the period 2013/14
9,452	9,427	25	99%

List of Bodies of Which the Fund is a Member



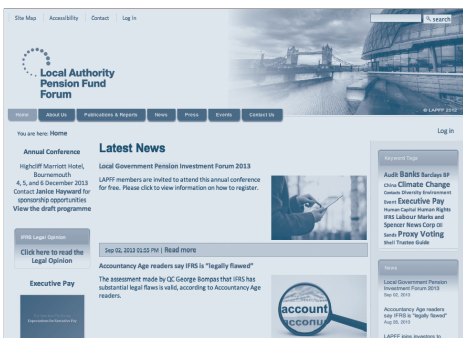
National Association of Pension Funds (NAPF)

The National Association of Pension Funds (NAPF) seek to influence the outcome of, and proactively shape, UK pension policy to achieve a viable and sustainable workplace pensions sector that instils public confidence. This means for a fair and affordable pensions system and an environment that encourages good workplace pensions.



Institutional Investors Group on Climate Change (IIGCC)

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The IIGCC brings investors together to use their significant collective influence to engage in dialogues with policymakers, investors and companies to accelerate the shift to a low carbon economy.



Local Authority Pension Fund Forum (LAPFF)

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.



Hedge Funds Standards Board (HFSB) – (www.hfsb.org)

The Hedge Fund Standards Board (HFSB) is the guardian of the Standards drawn up by international investors and hedge fund managers to create a framework of discipline for the hedge fund industry. The Standards serve the interests of all market participants and of the economy at large.



United Nations Principles for Responsible Investment (UNPRI)

The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice.

Risk Management

The Fund has to manage a wide range of risks and evaluate how this will be achieved. It is done through regular review, analysis, effective controls and management action, both proactive and reactive.

The Fund's objectives are achieved through a risk management framework.

The key elements are:

- Annual risk management review involving senior officers and use of a detailed template designed to cover all significant Fund activities. This is supported by the work of internal audit and specialist expertise engaged regularly in respect of operational investment risks supported by the use of the compliance testing programme.
- The external audit of the Fund's accounts and activities through experienced private sector staff supported by experienced pension partners combined with an actuarial expertise.
- Analysis of key processes enabling appropriate internal control procedures to be developed and maintained.
- A robust process for developing, monitoring and managing the investment strategy, and associated risk budget.

A key element to risk management is the structured delegation of powers from the Council to the Pensions Committee and then to the Director of Pensions, supported by senior officers. To complement the delegation, there is extensive and detailed accountability back to Committee on how these delegations have been exercised on a regular basis, with the Director submitting an *Annual Assurance Report*. The purpose of the *Annual Report* is to demonstrate that the Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices (when appropriate) and has high customer service functions satisfaction. In particular, risk management arrangements are robust and the reports to Pensions Committee have given that assurance.

Investment risk is significant and recognised as falling into distinct areas: market risk (beta) and manager skill (alpha). Investment strategy is devised and implemented with regard to these risks and is designed with the support of external expert advice.

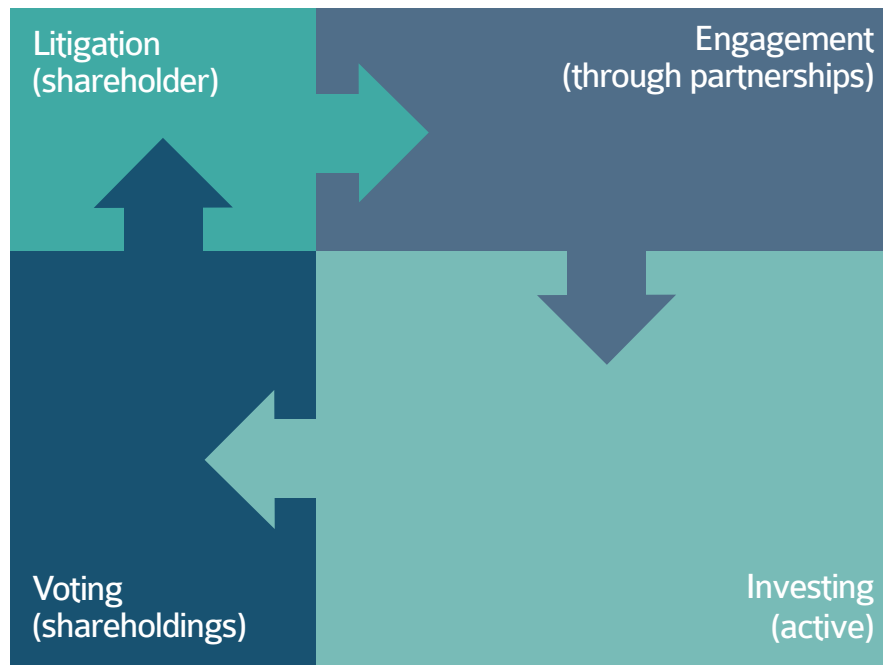
Details are contained in the *Statement of Investment Principles* and the *Funding Strategy Statement*. The operational management of the investment strategy is covered by a compliance testing programme, designed with the help of Deloitte, leading to quarterly reports to the Pensions Committee. This provides continual monitoring and review of investment activity and associated risks. In addition, Deloitte also review the compliance testing programmes. The Fund's approach to risk is regularly assessed, hence the investment strategy was subject to a major review in January 2009 by the Investment Sub-Committee in response to the unprecedented market turmoil of 2008, a further revision in April 2011 to complete the phased implementation. Subsequently, the Fund's investment strategy is reviewed annually by the Pensions Committee supported by the Fund's investment advisor, the latest being 2013/14.

The investment strategy is monitored weekly by officers, enabling appropriate corrective action to be taken if deemed necessary. A quarterly report is submitted to the Investment Sub-Committee covering the current asset allocation relative to the benchmark, investment performance and the actions taken during the quarter to implement the Pensions Committee's investment policy. Any positions outside the strategic risk ranges are reported and explained. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of an IT system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff.

It is recognised that Fund services are very dependent upon third party contracts ranging from IT through to investment managers. All are subject to regular review and monitoring, with compliance visits targeted at the more significant risk areas.

Responsible Investment

ESG Best Practice



The Fund believes that the incorporation of material environmental, social and governance (ESG) risks and opportunities into its investment approach will contribute to superior risk-adjusted returns over the long term. 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 set by their peers or reasonable expectations as measured by best practice. The Fund's approach is integral to its overall investment management arrangements and its active governance policy.

As shown in the graphic above, there are essentially four elements to the Fund's approach. Each one can be undertaken separately, though are most effective when combined, representing best practice.

Voting Globally

The Fund believes that global voting is a particularly effective communication tool in that it is transparent, simple and in the public domain. In 1999, the Fund began to exercise its right to vote at UK shareholder meetings and in the years since has expanded this to include voting all equity holdings in the US, Europe, Japan and the Pacific region.

Voting Summary

Over the twelve months ending 31 March 2014, the Fund voted at 2,485 shareholder meetings, both in the UK and internationally, opposing more than 20.5% of all resolutions. The Fund supported management on all resolutions at 51 meetings. A breakdown of the Fund's voting behaviour for these meetings across markets and issues is provided in the proceeding pages (Voting Summary).

Once again, the appointment of non-executive directors attracted a high level of opposition, hence where there appears to be insufficient independent representation on the board of directors, the Fund will vote against the appointment.

Investor opposition to executive remuneration reports continued to receive a high level of institutional attention during the year as shareholder opposition to remuneration has remained a contentious issue. The Fund is reluctant to reward management for poor or irresponsible behaviour and, in such circumstances, will oppose the remuneration report regardless of the economic backdrop.

Engagement with Partnerships

The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join with other investors with similar concerns. Some of the most significant collaborative initiatives in which the Fund is involved are highlighted below.

Local Authority Pension Fund Forum (LAPFF)

In terms of the Fund's engagement approach with other investors, it is most significant through LAPFF. It is a founding member of LAPFF, an influential body comprising of sixty public sector pension funds based in the UK with combined assets of more than £125bn. LAPFF exists to promote the investment interests of local authority pension funds, and believes that standing as a single group maximises their influence as shareholders, promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

Responsible Investment

Over the twelve months ending 31 March 2014, the LAPFF engaged with various companies on a range of environmental, social and governance issues on behalf of the Fund and other members. Where applicable, LAPFF will engage with companies on more than one issue simultaneously. A further breakdown of LAPFF's engagement programme over the course of the year is provided in the proceeding pages (Voting Summary).

Executive remuneration has been an important governance issue for LAPFF for many years and, over the past few years, LAPFF has focused on the subject of incorporating non-financial performance metrics into long-term reward. They believe that poor management of non-financial areas such as risk management can be detrimental to performance and that such measures could be used more effectively to align the interests of managers and owners.

The Fund believes that resilient, robust financial markets that are less prone to shocks, facilitate long-term growth and support the consideration of ESG issues are among the key factors determining the long-term return on the Fund. LAPFF engages with key policy makers and regulatory bodies to promote this aim. For example, since the launch of its 2011 report into why the UK and Irish banking system collapsed¹, LAPFF has also made significant progress raising concerns about the detrimental impact of *International Financial Reporting Standards (IFRS)*.

Further details on LAPFF's engagement activities can be found on their website: <http://www.lapfforum.org/>

United Nations-backed Principles of Responsible Investment (PRI)

The Fund also continues to be a signatory of the PRI. Signatories must show progress in incorporating the following principles into their investment process over time:

- To incorporate ESG issues into investment analysis and decision-making.
- To be active owners and incorporate ESG issues into ownership policies and practices.
- To seek appropriate disclosure on ESG issues by the entities in which investments are made.
- To promote acceptance and implementation of the principles within the investment industry.
- To work together to enhance effectiveness in implementing the principles.
- To report on activities and progress towards implementing the principles.

The principles allow the Fund to demonstrate its commitment to ESG issues, provide a framework from which the Fund can improve its responsible investment approach over time, and to further collaborate with other signatories to better understand ESG issues and improve best practice.

Further information on the PRI's activities can be found on their website: <http://www.unpri.org/>

Other Key Initiatives

The Fund is a signatory to the Institutional Investors Group on Climate Change (IIGCC), which is a forum for collaboration on climate change for European investors. The IIGCC uses its collective influence to engage in dialogues with policymakers, investors and companies to accelerate the shift to a low carbon economy. The Fund is a signatory to the *2014 Global Investor Statement on Climate Change* which can be found on the IIGCC's website: <http://www.iigcc.org>

The Fund is also a member of the National Association of Pension Funds (NAPF), the UK Sustainable Investment and Finance Association (UKSIF), and a signatory to the Carbon Disclosure Project (CDP).

Shareholder Litigation

A 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 where possible and where appropriate.

Environmental and Social Themed Investing

As an institutional investor, the Fund has a fiduciary duty to act in the best long-term interests of its employers and members. The Fund recognises that environmental and social challenges can create attractive investment opportunities and has actively committed to date approximately 1.3% of its assets to environmental and social themed investing. There is no set target for the Fund's ESG investments as these are considered mainstream, with holdings in most asset classes.

The Fund is also among five other LGPS funds forming part of the Investing 4 Growth (I4G) initiative, which aims to invest for financial returns and positive social and environmental impact. The Fund has recently committed £30 million to Bridges Property Alternatives Fund, a fund that was put forward through this initiative.

The Fund has also announced a partnership with Finance Birmingham providing finance to small and medium enterprises (SMEs) in the West Midlands area. The Fund has committed up to £40m of finance to a fund that Finance Birmingham is managing. The Fund will be joining other regional investors and central government in providing funds to the project which will be accessible as loans to SMEs. As with other impact investing opportunities, the Fund believes that this investment partnership will meet its investment criteria but also will have the important element of supporting local projects, securing and creating jobs in the West Midlands.

Voting Summary

Total



Support management **33.7%**
Against management **66.3%**

UK



Support management **23.2%**
Against management **76.8%**

Europe



Support management **29.1%**
Against management **70.9%**

USA and Canada



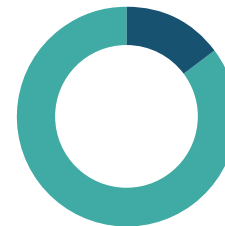
Support management **46.0%**
Against management **54.0%**

Asia



Support management **56.7%**
Against management **43.3%**

Japan



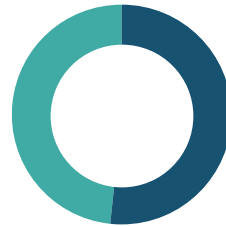
Support management **14.9%**
Against management **85.1%**

Australia/New Zealand/South Africa



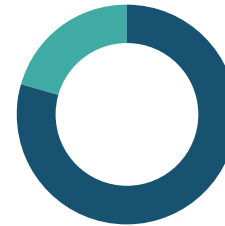
Support management **41.9%**
Against management **58.1%**

South America



Support management **51.7%**
Against management **48.3%**

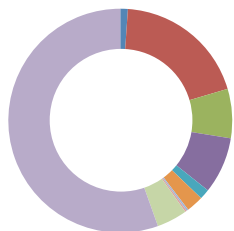
Rest of the World



Support management **79.6%**
Against management **20.4%**

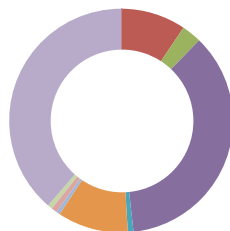
Voting Summary

Total



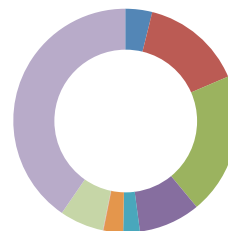
Shareholder resolution	1.1%
Remuneration	19.3%
Share capital	7.1%
Annual report	8.2%
Articles of association	1.5%
Auditors	2.5%
Corporate actions	0.3%
Corporate donations	0.3%
Other	4.4%
Directors	55.5%

UK



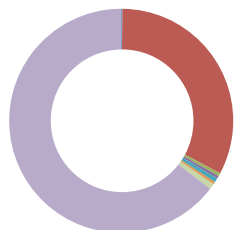
Shareholder resolution	-%
Remuneration	9.4%
Share capital	2.9%
Annual report	36.0%
Articles of association	0.8%
Auditors	10.2%
Corporate actions	0.5%
Corporate donations	0.8%
Other	0.7%
Directors	38.7%

Europe



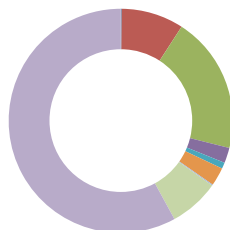
Shareholder resolution	3.9%
Remuneration	14.7%
Share capital	20.4%
Annual report	8.9%
Articles of association	2.4%
Auditors	2.8%
Corporate actions	-%
Corporate donations	-%
Other	6.4%
Directors	40.4%

USA and Canada



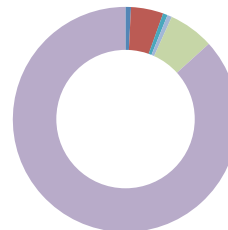
Shareholder resolution	0.2%
Remuneration	32.6%
Share capital	0.4%
Annual report	0.4%
Articles of association	0.6%
Auditors	0.4%
Corporate actions	-%
Corporate donations	-%
Other	0.8%
Directors	64.6%

Asia



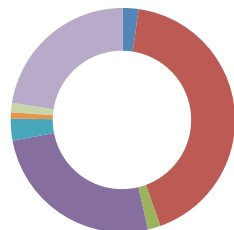
Shareholder resolution	0.1%
Remuneration	9.0%
Share capital	19.8%
Annual report	2.2%
Articles of association	0.9%
Auditors	2.7%
Corporate actions	0.1%
Corporate donations	-%
Other	7.2%
Directors	58.0%

Japan



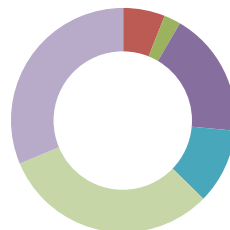
Shareholder resolution	0.8%
Remuneration	4.6%
Share capital	-%
Annual report	-%
Articles of association	0.7%
Auditors	-%
Corporate actions	0.7%
Corporate donations	-%
Other	6.5%
Directors	86.7%

Australia/New Zealand/South Africa



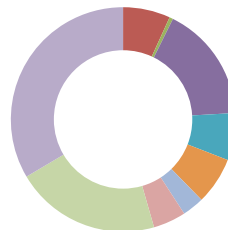
Shareholder resolution	2.3%
Remuneration	42.3%
Share capital	1.8%
Annual report	25.7%
Articles of association	3.2%
Auditors	0.9%
Corporate actions	-%
Corporate donations	-%
Other	1.4%
Directors	22.5%

South America



Shareholder resolution	-%
Remuneration	6.0%
Share capital	2.4%
Annual report	18.1%
Articles of association	10.8%
Auditors	-%
Corporate actions	-%
Corporate donations	-%
Other	31.3%
Directors	31.3%

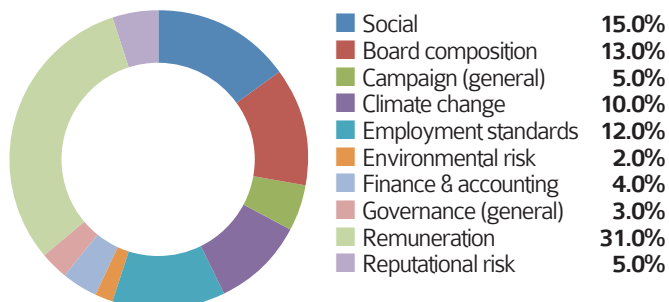
Rest of the World



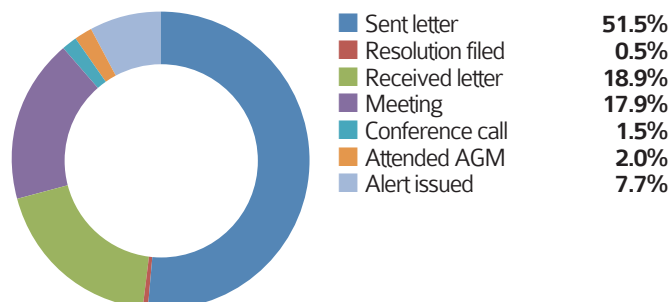
Shareholder resolution	-%
Remuneration	6.8%
Share capital	0.5%
Annual report	16.8%
Articles of association	6.8%
Auditors	6.8%
Corporate actions	3.1%
Corporate donations	4.7%
Other	20.9%
Directors	33.5%

LAPFF Engagement Summary

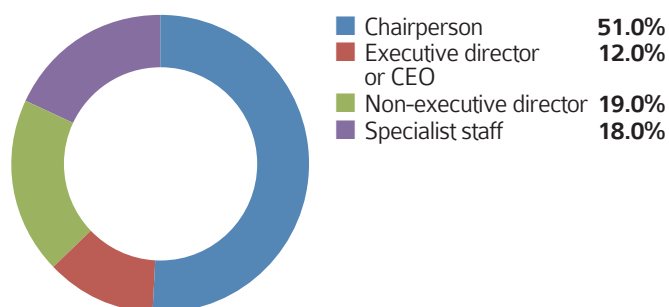
Themes



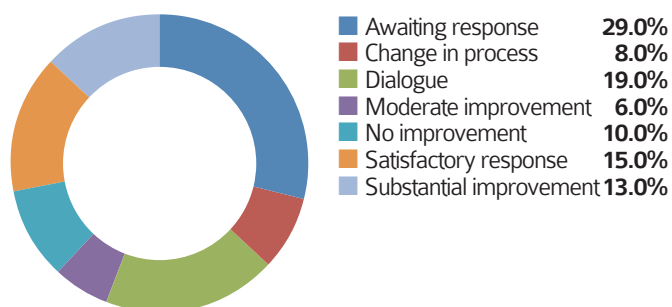
Activities



Company contact



Outcome



Compliance With The Myners' Report

Introduction

In 2000, UK government commissioned Paul Myners to undertake a review of institutional investment, publishing a report in 2001 which became established as the Myners' Principles on Good Investment Governance. The principles were updated through a Treasury report in October 2008, *'Updating the Myners' Principles: A Response to Consultation'*.

Local government pension funds are required, by regulation, to produce a statement on their compliance with the Myners' Principles on the basis of 'comply or explain', including the statement in their annual report. CIPFA produces guidance and advises on the application of the Myners' Principles to local government pension funds. This guidance (Investment Decision Making and Disclosure 2009) has been followed in the production of this statement.

Executive Summary

The West Midlands Pension Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice. The power to establish and maintain pension funds is set out in various local government regulations, some of which establish limits and controls on investment activity. The Myners' Principles support and complement these regulations. The Secretary of State has previously highlighted the principle contained in *Roberts v Hapwood* whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

“ 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. ”

The Myners' Principles are seen as supporting this approach.

This statement links with and is supported by the Fund's *SIP (Statement of Investment Principles)*, *FSS (Funding Strategy Statement)* and *Governance Strategy*, where much supporting detail is contained.

Compliance With The Myners' Report

Demonstration of Compliance with Myners' Principles

The table demonstrates how Myners-compliant the Fund is; details of which are further described on the following pages.

Supporting Documents and Operational Arrangements	Myners' Principle					
	1	2	3	4	5	6
a) City Council Constitution	✓					
b) Fund Strategies and Statement						
• SIP	✓	✓	✓	✓	✓	✓
• FSS	✓	✓	✓	✓		✓
• Social Responsibility Statement	✓	✓			✓	✓
• Fund Governance Statement	✓					✓
• Communication Strategy	✓					✓
c) Procedures						
• Compliance Manual	✓		✓			
• External Audit			✓			
• Internal Audit			✓			
• Risk Assessment			✓			
• Business Plan	✓		✓	✓	✓	✓
• Valuation Report		✓	✓			✓
• Annual Report and Governance Report		✓	✓	✓	✓	✓
d) Fund Reporting						
• Quarterly Technical Asset Allocation	✓		✓	✓		
• Property Strategy	✓	✓		✓		
• Annual Returns	✓		✓	✓		✓
• Quarterly Compliance Report				✓		✓
• Quarterly Governance Activity					✓	✓
• Quarterly Investment Activity	✓			✓		✓
• Employing Body Brief		✓				✓
• Annual Benefit Statements						✓
e) Advisors						
• Investments	✓	✓	✓	✓		
• Actuary	✓	✓	✓	✓		
• Company Governance	✓	✓			✓	
• Finance and Legal	✓	✓	✓			
f) Support Arrangements						
• Custodian	✓					
• Management Agreements	✓	✓	✓		✓	

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
<p>Principle 1: Effective Decision-Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<ol style="list-style-type: none"> 1) Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers. 2) Functions can be delegated and investment managers used, but overall responsibility rests with members. 3) Proper advice should be taken and the regulations define this as: "the advice of a person who is reasonably believed...to be qualified by his ability in and practical experience of financial matters." 4) The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour. 5) All councils must appoint one of its officers to have responsibility for ensuring arrangements are in a place for the proper/financial administration of its financial affairs. 6) The role of the Pensions Committee and key officers should be clear in the Council's constitution. 7) Best governance practices should be followed. 8) The Superannuation Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making. 	<p>The Fund produces a business plan and a medium-term financial plan, together with supporting codes and policies:</p> <ul style="list-style-type: none"> • SIP (Statement of Investment Principles) • FSS (Funding Strategy Statement) • Governance Statement <p>The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff, use of professional advisors where necessary, in accordance with the Council's constitution and Fund's compliance manual and procedures.</p>
<p>Principle 2: Clear Objectives</p> <p>An overall investment objective(s) should be set out for the fund that takes account of the Scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and Scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<ol style="list-style-type: none"> 1) A three-yearly actuarial valuation as required by regulation. 2) A full range of investment opportunities should be considered. 3) A strategic asset allocation should be used and reviewed regularly. 4) Robust investment management agreements should be used. 5) The targeted investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process. 6) The provision for taking proper advice should be demonstrated. 	<p>The Fund takes a range of specialist advice in formulating its investment strategy, SIP and FSS, ensuring all link to the common objectives that arise from the actuarial process with emphasis on managing investment risk relative to fund cash flows and need for stable contribution rates.</p> <p>These policies are reviewed regularly and interim valuations used to track progress between valuations.</p> <p>The Superannuation Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from professional and experienced advisors. The Investment Sub-Committee regularly reviews new investment opportunities and make up of asset portfolios.</p>

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
<p>Principle 3: Risks and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<ol style="list-style-type: none"> 1) The Superannuation Committee should set a clear investment objective. 2) Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised. 3) Appropriate guarantees should be used to protect against employer default. 4) The need for affordable, stable contributions should be reflected in the work of the Pension Committee. 5) The Superannuation Committee should satisfy itself about the standards of internal controls applied are sound and robust. 6) An understanding of risk should be demonstrated and reported upon. 	<p>Members set the Fund's investment strategy having regard to the liabilities and achieving stable affordable contributions, consulting with interested parties regularly.</p> <p>The investment setting process takes account of short-term market volatility, but with strong positive cash flows places great emphasis on the medium to long-term view.</p> <p>The Fund's annual report includes a statement on overall risk management of all activities.</p>
<p>Principle 4: Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to Scheme members.</p>	<ol style="list-style-type: none"> 1) Extensive formal performance measurement of investments, managers and advisors should be in place and relate to the investment objectives. 2) Effectiveness of the Superannuation Committee should be reported upon at regular intervals. 3) Returns should be measured on a quarterly basis in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile. 	<p>The overall investment objectives link to portfolios and the individual investment objectives. The performance measurement is made up of targets driven by the investment strategy and its component parts.</p> <p>An external measurement service is used to provide robust and reliable information. Off-target performance is reviewed by the Superannuation Committee and Investment Sub-Committee and appropriate action agreed.</p> <p>The regular annual report details the work and achievement of the Committee.</p>

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
<p>Principle 5: Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> ● adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. ● include a statement of their policy on responsible ownership in the statement of investment principles. ● report periodically to Scheme members on the discharge of such responsibilities. 	<ol style="list-style-type: none"> 1) Disclose approach to company governance matters and socially responsible issues in SIP. 2) Define expectations of managers on company governance matters. 3) The Institutional Shareholders' Committee of Principles for institutional shareholders and/or agents should be followed. 	<p>The Fund co-ordinates its corporate governance activity, voting its holding in companies with the help of a specialist advisor, in accordance with its company voting template. It publishes on a quarterly basis its actions, and a clear statement of its position on SRI matters is produced. Works in partnership with other funds are actively promoting good company governance, eg, LAPFF.</p>
<p>Principle 6: Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> ● act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. ● provide regular communication to Scheme members in the form they consider most appropriate. 	<ol style="list-style-type: none"> 1) Maintain a sound governance policy and demonstrate its implementation. 2) Maintain a communication policy and strategy. 3) Ensure all required strategies and policies are published in a clear transparent manner. 4) Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available. 	<p>The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferred and pensioners receive regular communications on the Fund's activities and performance. A comprehensive annual report is produced.</p>

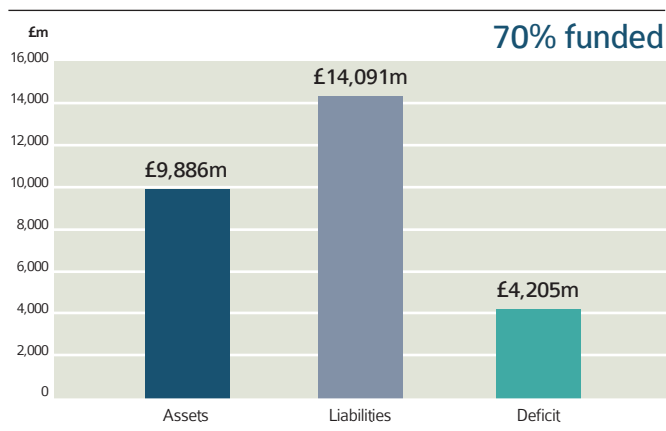
Statement of the Consulting Actuary

Accounts for the year ended 31 March 2014

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the West Midlands Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £9,886 million represented 70% of the Fund's past service liabilities of £14,091 million (the 'funding target') at the valuation date. The deficit at the valuation date was therefore £4,205 million.



The valuation also showed that a common rate of contribution of 13.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular, there was an increase in gilt yields which underpin the liability assessment. This improved the funding position materially to 75% with a resulting deficit of £3,275 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average, across the Fund, the updated deficit would be eliminated by a contribution addition of £167m per annum increasing at 4.35% per annum (equivalent to approximately 10.3% of projected pensionable pay at the valuation date) for 22 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the *Funding Strategy Statement (FSS)*. Any different approaches adopted, eg, with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the funding target and the common contribution rate were as follows:

	For past services liabilities (funding target)	For future services liabilities (common contribution rate)
Rate of return on investments (discount rate)	4.6% pa	5.6% pa
Rate of pay increases (long-term)	4.35% pa	4.35% pa
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	3.0% pa	3.0% pa

**allowance was also made for short-term public sector pay restraint over a three- to five-year period depending on the individual employer.*

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% pa	4.5% pa
Rate of pay increases	4.15% pa	4.15% pa
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.4% pa	2.4% pa

**includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.*

Statement of the Consulting Actuary

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% pa versus 4.2% pa). The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £15,611 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£1,249 million. Adding interest over the year increases the liabilities by c£656 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£63 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£401 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £14,680 million.

Paul Middleman

Fellow of the Institute and faculty of Actuaries
Mercer Limited

Date: September 2014

Independent Auditors' Statement to the Members of the West Midlands Pension Fund (the 'Authority') on the Pension Fund Financial Statements

Statement on the Financial Statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of Wolverhampton City Council for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by West Midlands Pension Fund, comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Responsibilities for the Financial Statements and Our Examination

Our responsibilities and those of the Responsible Financial Officer

As explained more fully in the Statement of Responsibilities set out on page x of the audited Statement of Accounts the Responsible Financial Officer is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of Wolverhampton City Council. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consists of The Chair's and Directors' Statements, the Statutory Information, the Management Reports, the Statistical Information and Risk Management and the Appendices.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, 30 September 2014, and the date of this statement.

Richard F Bacon (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

30 September 2014

- The maintenance and integrity of the Wolverhampton City Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions

Statement of Responsibilities

The Council's Responsibilities

The council is required to:

- i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Assistant Director Finance.
- ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- iii) Approve the Statement of Accounts.

The Assistant Director Finance's Responsibilities

The Assistant Director Finance is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Assistant Director Finance has:

- i) Selected suitable accounting policies and then applied them consistently.
- ii) Made judgements and estimates that were reasonable and prudent.
- iii) Complied with the Code.

The Assistant Director Finance has also:

- i) Kept proper accounting records which were up to date.
- ii) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the Assistant Director Finance

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the council as at 31 March 2014 and its income and expenditure for the year ended the same date.

Mark Taylor

Assistant Director Finance

30 June 2014

Fund Account

2012/13 £m		Notes	2013/14 £m
	Contributions and benefits		
410.9	Contributions receivable	P7	419.3
22.6	Transfers in	P8	11.3
16.2	Other income	P9	16.2
449.7	Total contributions and other income		446.8
445.1	Benefits payable	P10	472.4
15.8	Payments to and on account of leavers	P11	23.0
0.2	Other payments		0.3
5.3	Administration expenses	P12	5.0
466.4	Total benefits and other expenditure		500.7
(16.7)	Net reductions from dealings with members		(53.9)
	Returns on investments		
136.8	Investment income	P15	134.8
846.0	Changes in value of investments	P17	85.4
97.7	Profit and losses on disposal of investments		103.0
(11.3)	Investment management expenses	P12	(11.2)
1,069.2	Net return on investments		312.0
1,052.5	Net increase in the Fund during the year		258.1
8,833.8	Net assets of the Fund at the beginning of the year		9,886.3
9,886.3	Net assets of the Fund at the end of the year		10,144.4

Net Assets Statement

2012/13 £m		Notes	2013/14 £m
	Investment assets (at market value)	P16	
173.9	Fixed interest securities		171.3
943.5	UK equities		971.3
2,072.5	Overseas equities		3,155.9
5,729.4	Pooled investment vehicles		4,908.2
567.6	Property		629.8
82.9	Foreign currency holdings		42.2
241.1	Cash deposits		211.6
-	Other investment assets		-
15.4	Outstanding dividend entitlement and recoverable withholding tax		4.9
9,826.3	Investment assets		10,095.2
	Investment liabilities (at market value)	P16	
(0.1)	Other investment liabilities		(3.3)
(0.1)	Investment liabilities		(3.3)
9,826.2	Net investment assets		10,091.9
73.2	Current assets	P19	71.1
(13.1)	Current liabilities	P20	(18.6)
9,886.3	Net assets of the Fund at the end of the year		10,144.4

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the actuarial certificate/statement.

The notes form part of these financial statements.

Notes to the Accounts

1. General

The West Midlands Pension Fund is administered by Wolverhampton City Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund.

The City Council Pensions Committee administers the pension fund function. It meets at approximately quarterly intervals and has members from each of the seven metropolitan district councils in the West Midlands region. An Investment Advisory Sub-Committee and a Joint Consultative Panel have been established to deal with the two areas of management and administration of the Fund.

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations. This includes:

- i) the LGPS (Benefits, Membership and Contribution) Regulations 2007 (as amended);
 - ii) the LGPS (Administration) Regulations 2008 (as amended); and
 - iii) the LGPS (Management and Investment of Funds) Regulations 2009.
- iv) the Local Government Pension Scheme Regulations 2013

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contribution) Regulations 2007 and range from 5.5% and 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Employer contribution rates during 2013/14 ranged from 2.7% to 27.8% of pensionable pay.

The Fund's Statement of Investment Principles (SIP) can be found in this report and on the Fund's website at wmpfonline.com.

2. Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2013/14 financial year and its position at the year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 5 of these accounts.

3. Statement of Accounting Policies

a) Inclusion of Income and Expenditure

i) Membership of the Fund

Membership of the Fund is available for all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region, together with employees of admitted bodies.

ii) Fund Account

In the Fund account, income and expenditure are accounted for in the year in which they arise by the creation of payables and receivables at the year end where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year-end (see note 8).

iii) Contribution Income

Contributions receivable have been included in the accounts on the accruals basis at the rates set out in notes 1 and 5 for basic contributions. Additional contributions as notified by employers for the period have also been included.

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

iv) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who had either joined or left the scheme as at 31 March 2014, calculated in accordance with the Local Government Pension Scheme regulations (see notes 8 and 11). They are accounted for when trustees of the receiving scheme have agreed to accept the transfer.

v) Investment Income

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

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

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

vi) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2014 relating to the financial year 2013/14.

vii) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2014.

b) Valuation of Investments

The market values of investments as shown in the net assets statement have been determined as follows:

i) Quoted Securities

Securities have been valued at the bid-market price ruling on 31 March 2014 where a quotation was available on a recognised stock exchange or unlisted securities market.

ii) Unquoted Securities

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor report has not been received from the fund manager the security is valued at cost.

Notes to the Accounts

iii) Pooled Investment Vehicles

Pooled investment vehicles are stated at the bid-point of the latest prices quoted or the latest single market prices. In the case of the pooled investment vehicles (which are accumulation funds), change in market value also includes income, net of withholding tax, which is reinvested in the Fund.

iv) Freehold and Leasehold Properties

These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, Chartered Surveyors as at 31 March 2014. One-third of the commercial property portfolio is valued fully in March each year, with the remaining two-thirds being a 'desktop' valuation. The valuation undertaken at 31 March 2014 was therefore one-third full valuation, and the remaining two-thirds, desktop valuations. Agricultural properties were valued by Savills Plc, Agricultural Valuers at the same date.

v) Foreign Currencies

Investments held in foreign currencies have been valued as set out in paragraphs 3b (i) to 3b (ii) on the previous page and translated at exchange rates ruling at 31 March 2014.

vi) Movement in the Net Market Value of Investments

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

c) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

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

d) Financial Liabilities

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

e) Investment and Administration Expenses

All investment management expenses are accounted for on an accruals basis.

External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody, and as such will fluctuate as the valuations change.

In addition, performance-related fees are negotiated with a number of managers and performance-related fees totalled £1.3 million in 2013/14 and £2.2 million in 2012/13.

Where a management fee notification has not been received by 31 March, an estimate is used for inclusion in the Fund account.

The cost of using advice from external consultants is included in investment management fees.

The cost of in-house management is charged to the Fund, as is an element of the administering authority's officers time spent on management of the Fund.

f) Membership

Overall membership of the Fund at the end of the year was as follows:

2012/13 '000		2013/14 '000
97.3	Active members	99.7
77.5	Pensioner members	80.6
86.5	Deferred members	90.0

A detailed list of member bodies is available at note 24.

4. Critical Judgements in Applying Accounting Policies

Unquoted Private Equity Investments

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor valuation report has not been received from the fund manager, the security is valued at cost. The value of unquoted private equity at 31 March 2014 was £1,240.5 million (£1,231.9 million at 31 March 2013).

Fund Liability

The Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 5. This estimate is subject to significant variances based on changes to the underlying assumptions.

a) Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Actuarial Present Value of Promised Retirement Benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercer Limited, the Fund's consulting actuaries, are engaged to provide expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability; however, an increase in assumed earnings inflation or assumed life expectancy would significantly increase the pension liability as detailed by the Fund's consulting actuary below:

Change in assumptions – year ended 31st March 2014	Approx % increase in liabilities	Approx monetary value £m
0.5% pa decrease in discount rate	10%	1,449.0
One-year increase in member life expectancy	2%	318.0
0.5% pa increase in salary increase rate	2%	315.0
0.5% pa increase in CPI inflation	9%	1,375.0

Notes to the Accounts

Private Equity

Uncertainties

Private equity investments are not publicly listed and, as such, there is a degree of estimation involved in the valuation.

Effect if actual results differ from assumptions

The total private equity investments in the financial statements are £1,240.5 million. There is a risk that this investment may be under- or overstated in the accounts.

Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£62.0 million.

Hedge Funds

Uncertainties

Hedge funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the directors or independent administrators judge necessary. Where these investments are not publicly listed, there is a degree of estimation involved in the valuation.

The total hedge funds value in the financial statements is £217.5 million. There is a risk that these investments may be under- or overstated in the accounts. Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£10.9 million.

5. Actuarial Valuation

A full actuarial valuation of the Fund was made as at 31 March 2013 by the Fund's actuary, P Middleman of Mercer Human Resource Consulting Limited. The actuary has determined the contribution rates with effect from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £9,886.0 million represented 70% of the funding target of £14,091.0 million at the valuation date.

The valuation also showed that a common rate of contribution of 13.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure, effective from 1 April 2014.

Adopting the same method and assumptions as used for calculating the funding target, the deficit could be eliminated by an average additional contribution rate of 10.3% of pensionable pay for 22 years.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report dated 31 March 2014. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

As a result of the valuation, a revised rates and adjustments certificate was prepared for the three years commencing 1 April 2014. For comparison purposes, the figures for the two preceding years are also shown. The rates payable by the unitary authorities were certified as shown below:

Future service rate (% of pay) plus lump-sum (£)

	2012/13	2013/14	2014/15	2015/16	2016/17
Birmingham City Council	12.1% plus £27,800,000	12.1% plus £29,100,000	12.3% plus £40,113,600	12.9% plus £41,870,400	13.4% plus £43,724,800
Coventry City Council	12.1% plus £6,600,000	12.1% plus £6,900,000	12.2% plus £9,467,000	12.7% plus £12,395,000	13.1% plus £15,518,000
Dudley MBC	11.8% plus £5,700,000	11.8% plus £6,000,000	12.1% plus £7,418,000	12.7% plus £9,174,000	13.2% plus £10,931,000
Sandwell MBC	11.7% plus £7,900,000	11.7% plus £8,300,000	13.1% plus £11,614,400	13.1% plus £15,323,200	13.1% plus £19,227,200
Solihull MBC	11.7% plus £4,300,000	11.7% plus £4,500,000	12.3% plus £17,217,000	12.9%	13.5%
Walsall MBC	11.7% plus £8,000,000	11.7% plus £8,400,000	13.2% plus £14,250,000	13.2% plus £14,835,000	13.2% plus £15,518,000
Wolverhampton City Council	12.2% plus £7,400,000	12.2% plus £7,800,000	12.6% plus £9,000,000	13.1% plus £9,900,000	13.5% plus £10,900,000

Notes to the Accounts

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the funding target and the common contribution rate were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments	4.6% per annum	5.6% per annum
Rate of pay increases	4.35% per annum	4.35% per annum
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.6% per annum	2.6% per annum

*Allowance was also made for short-term public sector pay restraint over a three/five-year period depending on the individual employer.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, the following financial assumptions have been used:

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.15% per annum	4.15% per annum*
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.4% per annum	2.4% per annum

*includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £15,611.0 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£1,249.0 million. Adding interest over the year increases the liabilities by c£656.0 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£63.0 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual versus expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£401.0 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £14,680.0 million.

6. Taxation

Value Added Tax (VAT)

The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

Taxation of Overseas Investment Income

The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets. Where relief is available, it may be either in full at source (USA, Belgium, Australia, Finland and Norway), or partial relief by claim (Austria, Denmark, France, Germany, Netherlands, Switzerland and Spain).

In some markets (Poland, Canada, Italy and Sweden) tax is deducted at the treaty rate so that no further adjustment is required, and there are also markets (Malaysia, Hong Kong and Singapore) where no double taxation agreements exist and where the full amount is payable.

7. Contributions Receivable

2012/13 £m		2013/14 £m
	From employers	
294.8	Basic contributions	301.4
0.5	Augmented membership	0.3
8.3	Additional cost of early retirement	8.8
303.6		310.5
	From employees	
106.4	Basic contributions	107.8
0.9	Additional contributions	1.0
107.3		108.8
410.9	Total contributions	419.3

The additional contributions above represent the purchase of added membership or additional benefits under the scheme and are included in the revenue accounts.

One admitted body, Black Business in Birmingham, terminated their agreement in December 2008 and is now in administration with an outstanding liability identified by the actuary of £128,200.

Payments can be analysed by type of member body as follows:

2012/13 £m		2013/14 £m
30.8	Administering authority	32.9
361.4	Scheme employers	367.8
18.7	Admitted employers	18.6
410.9	Total	419.3

8. Transfers In

2012/13 £m		2013/14 £m
22.6	Individual transfers in from other schemes	11.3

Notes to the Accounts

9. Other Income

2012/13 £m		2013/14 £m
	Benefits recharged to employers	
9.1	Compensatory added years	9.0
7.1	Pensions increases	7.2
-	Magistrates courts committee	-
16.2	Total	16.2

10. Benefits Payable

An analysis of expenditure on benefits by type is given below:

2012/13 £m		2013/14 £m
	Pensions	
328.8	Retirement pensions	346.0
25.7	Widows' pensions	26.5
1.0	Children's' pensions	0.9
3.1	Widowers' pensions	3.5
0.1	Ex-spouse	0.1
0.1	Equivalent pension benefits	0.1
-	Civil partnership	-
-	Cohabiting partners	-
358.8	Total pensions	377.1
	Lump-sum benefits	
74.6	Retiring allowances	83.5
11.7	Death grants	11.8
86.3	Total lump-sum benefits	95.3
445.1	Total benefits payable	472.4

The total benefits payable can be analysed by type of member body as follows:

2012/13 £m		2013/14 £m
38.1	Administering authority	40.8
379.7	Scheme employers	400.8
27.3	Admitted employers	30.8
445.1	Total	472.4

11. Payments To and On Account of Leavers

2012/13 £m		2013/14 £m
12.8	Individual transfers out to other schemes	20.2
-	Refunds of contributions	-
-	State scheme premiums	-
3.0	Bulk pension transfer increases	2.8
15.8	Total	23.0

12. Investments and Administration Expenses

Costs incurred in the management of the investments of the Fund and the administration of the Fund have been charged to the Fund in accordance with the Local Government Pension Scheme regulations and can be analysed as follows:

2012/13 £m		2013/14 £m
	Administration	
4.8	Pensions administration	4.2
0.5	Actuarial fees	0.7
-	Audit fees	0.1
-	Legal and other professional fees	-
5.3	Total administration	5.0
	Investments	
8.8	External management of investments	8.5
2.1	In-house management of investments	2.1
-	Performance measurement service	-
0.1	Property and legal fees	0.2
0.3	Safe custody expenses	0.4
11.3	Total investments	11.2

Performance-related fees are negotiated with a number of managers. Included in external management of investments are performance-related fees of £1.3 million in 2013/14 and £2.2 million in 2012/13.

Notes to the Accounts

13. Senior Officers' Remuneration

The following table sets out the remuneration disclosures for senior officers (with reference to notes where applicable):

Post title/name		Salary, fees and allowances £	Bonuses £	Expenses allowances £	Termination benefits £	Employers' pension contribution £	Fund responsibilities ¹ £	Total remuneration £
Senior officers with a salary of less than £150,000 per year								
Director of Pensions	2013/14	122,850	-	-	-	23,464	-	146,314
	2012/13	120,831	-	6,627	-	23,090	-	150,548
Assistant Director Investments ²	2013/14	50,897	-	575	-	9,721	-	61,193
	2012/13	-	-	-	-	-	-	-

¹The costs of West Midlands Pension Fund responsibilities are funded by the West Midlands Pension Fund and not by Wolverhampton City Council.

²The post of Assistant Director Investments (within the West Midlands Pension Fund) was created on 27 August 2013 with an annual salary of £85,287.

The following tables show the number of other employees whose remuneration for the year (excluding employer's pension contributions) exceeded £50,000.

Remuneration band	2013/14			2012/13		
	Fund	Total number of employees in band	Employees receiving termination packages (included in total)	Fund	Total number of employees in band	Employees receiving termination packages (included in total)
£145,000 - £149,999	-	-	-	£145,000 - £149,999	-	-
£140,000 - £144,999	-	-	-	£140,000 - £144,999	-	-
£135,000 - £139,999	-	-	-	£135,000 - £139,999	-	-
£130,000 - £134,999	-	-	-	£130,000 - £134,999	-	-
£125,000 - £129,999	-	-	-	£125,000 - £129,999	-	-
£120,000 - £124,999	-	-	-	£120,000 - £124,999	1	1
£115,000 - £119,999	-	-	-	£115,000 - £119,999	-	-
£110,000 - £114,999	-	-	-	£110,000 - £114,999	-	-
£100,000 - £104,999	-	-	-	£100,000 - £104,999	-	-
£105,000 - £109,999	-	-	-	£105,000 - £109,999	-	-
£95,000 - £99,999	-	-	-	£95,000 - £99,999	-	-
£90,000 - £94,999	-	-	-	£90,000 - £94,999	-	-
£85,000 - £89,999	-	-	-	£85,000 - £89,999	-	-
£80,000 - £84,999	-	-	-	£80,000 - £84,999	1	1
£75,000 - £79,999	-	-	-	£75,000 - £79,999	-	-
£70,000 - £74,999	-	-	-	£70,000 - £74,999	-	-
£65,000 - £69,999	-	-	-	£65,000 - £69,999	-	-
£60,000 - £64,999	1	1	1	£60,000 - £64,999	-	-
£55,000 - £59,999	1	1	-	£55,000 - £59,999	3	3
£50,000 - £54,999	2	2	2	£50,000 - £54,999	1	1
Total	4	4	3	Total	6	6

Notes to the Accounts

14. Exit Packages

The following table provides information about exit packages payable by the Fund during the year.

2012/13						2013/14						
Compulsory		Voluntary		Total		Value of individual package	Compulsory		Voluntary		Total	
Number	£m	Number	£m	Number	£m		Number	£m	Number	£m	Number	£m
-	-	-	-	-	-	£150,001 to £200,000	-	-	-	-	-	-
-	-	-	-	-	-	£100,001 to £150,000	-	-	-	-	-	-
-	-	-	-	-	-	£80,001 to £100,000	-	-	-	-	-	-
1	0.08	-	-	1	0.08	£60,001 to £80,000	-	-	-	-	-	-
-	-	-	-	-	-	£40,001 to £60,000	-	-	1	0.04	1	0.04
-	-	-	-	-	-	£20,001 to £40,000	1	0.02	2	0.05	3	0.07
-	-	-	-	-	-	Less than £20,000	1	0.02	3	0.04	4	0.06
1	0.08	-	-	1	0.08	Total	2	0.04	6	0.13	8	0.17

Notes to the Accounts

15. Investment Income

Investment income is analysed below:

2012/13 £m		2013/14 £m
	Dividends and interest	
	<i>Fixed-interest securities</i>	
8.5	UK private sector – quoted	8.8
	<i>Equities</i>	
33.2	UK	31.9
43.6	Overseas	43.0
	<i>Pooled investment vehicles</i>	
22.8	UK	19.8
-	UK: reinvested income, prior years	
1.8	Overseas equities	1.9
0.1	Private equity	-
0.9	Interest on cash deposits	1.3
0.9	Stocklending	0.6
-	UK tax, irrecoverable	(0.1)
(1.9)	Overseas taxation	(1.4)
109.9	Total dividends and interest	105.8
35.7	Property management income	37.4
(8.8)	Property management expenses	(8.4)
26.9	Total property management	29.0
136.8	Total investment income	134.8

Stocklending

The stocklending programme provides for direct equity investments to be lent. At the year end, the value of quoted equities on loan was £171.4m (2013: £43.9m) in exchange for which the custodian held collateral worth £184.6m (2013: £50.5m). Collateral consists of acceptable securities and government debt.

16. Net Investment Assets

Further analysis of the market value of investments as set out in the net assets statement is given below.

Segregated accounts are held separately from the main account by the global custodian, and contain assets managed by some of the Fund's external managers.

31 March 2013 £m		31 March 2014 £m
	Fixed-interest securities	
173.9	UK companies - segregated (external)	171.3
173.9		171.3
	UK equities	
943.5	Quoted	971.3
-	Quoted - segregated (external)	-
943.5		971.3
	Overseas equities	
1,713.4	Quoted	1,763.9
359.1	Quoted - segregated (external)	1,392.0
2,072.5		3,155.9

31 March 2013 £m		31 March 2014 £m
	Pooled investment vehicles	
	Managed funds	
196.4	UK quoted, fixed interest	192.5
646.4	Other fixed interest	600.8
963.2	UK quoted, index-linked	948.6
858.8	Overseas equities	259.7
255.5	UK unquoted equities	269.6
1,509.7	Overseas unquoted equities	1,453.8
593.0	UK absolute returns	553.0
105.9	Overseas absolute returns	89.6
37.6	UK property	47.0
225.7	Foreign property	211.3
	Unit trusts	
26.6	UK quoted equities	66.3
303.6	Overseas equities	209.4
7.0	Overseas property	6.5
5,729.4		4,908.2
	Property	
532.7	UK freehold	586.8
34.9	UK leasehold*	43.0
567.6		629.8
	Foreign currency holdings	
29.6	United States dollars	21.3
34.0	Euro	11.3
1.5	Canadian dollars	1.0
1.1	Danish kroner	0.4
0.4	Hong Kong dollars	0.6
3.2	Swedish kroner	0.5
4.3	Swiss francs	1.4
2.0	Japanese yen	1.4
1.2	Norwegian kroner	0.5
-	Malaysian ringgits	-
-	Singapore dollars	0.6
1.1	Australian dollars	1.1
-	New Zealand dollars	0.1
1.2	Hungarian forints	0.5
0.9	Polish zloty	0.7
-	Israeli shekels	-
1.2	Turkish lira	0.3
1.2	Czech koruna	0.5
-	Korean won	-
82.9		42.2
	Cash deposits	
241.1	UK	211.6
	Other investments	
(0.1)	Broker balances	(3.3)
15.4	Outstanding dividend entitlement and recoverable withholding tax	4.9
9,826.2	Total net investment assets	10,091.9

*All leasehold properties are held on long leases

Notes to the Accounts

The following investments represent more than 5% of the net assets of the scheme:

31 March 2013			31 March 2014	
Market value £m	% of total market value		Market value £m	% of total market value
		Security		
664.0	6.8	Legal & General - All Stocks Index-Linked Gilts Fund	639.1	6.3

The proportion of the market value of investment assets managed in-house and by external managers at the year-end is set out below.

31 March 2013			31 March 2014	
Market value £m	% of total market value		Market value £m	% of total market value
3,497.3	35.6	In-house	3,615.5	35.7
26.6	0.3	Managers: UK quoted	33.2	0.3
131.1	1.3	Managers: US quoted	146.5	1.5
193.3	2.0	Managers: European quoted	236.8	2.3
37.6	0.4	Managers: Japanese quoted	36.2	0.4
107.4	1.1	Managers: Pacific Basin	69.5	0.7
609.3	6.2	Managers: Emerging markets	845.9	8.4
493.9	5.0	Managers: Global equities	526.1	5.2
1,979.9	20.2	Managers: Fixed interest	1,913.2	19.0
270.3	2.8	Managers: Indirect property	298.0	3.0
-	-	Managers: Emerging market debt	189.6	1.9
206.8	2.1	Managers: Commodities	293.4	2.9
326.5	3.3	Managers: Infrastructure funds	642.6	6.4
698.9	7.1	Managers: Absolute return	1,240.5	12.3
1,231.9	12.6	Managers: Private equity	-	-
9,810.8	100.0		10,087.0	100.0
15.4		Outstanding dividend entitlement and recoverable withholding tax	4.9	
9,826.2		Total investment assets	10,091.9	

17. Investment Market Value Movements Analysis

The change in the value of investments during 2013/14 is set out below:

	Value as at 31 March 2013 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 March 2014 £m
Fixed interest securities	173.9	-	-	(2.6)	171.3
UK equities	943.5	29.0	(25.9)	24.7	971.3
Overseas equities	2,072.5	1,099.5	(76.8)	60.7	3,155.9
Pooled investment vehicles	5,729.4	1,029.2	(1,809.8)	(40.6)	4,908.2
Property	567.6	21.5	(2.5)	43.2	629.8
	9,486.9	2,179.2	(1,915.0)	85.4	9,836.5
Broker balances	(0.1)				(3.3)
Outstanding dividend entitlement and recoverable withholding tax	15.4				4.9
Foreign currency	82.9				42.2
Cash deposits	241.1				211.6
Total investments	9,826.2				10,091.9

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profit and losses on the sale of investments shown in the Fund account includes an additional £103.0 million which represents profit realised on sale of the Fund's assets.

Purchases also include transfers in of investments, takeover of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, takeover proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

Notes to the Accounts

There were 125 late payments amounting to £2.3 million of contributions during the year which constituted employer-related investments until the amounts were received. Other than this, there were no employer-related investments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.2 million (2012/13: £0.4 million). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

31 March 2013 £m		31 March 2014 £m
0.1	Equities - UK quoted	0.1
0.3	Equities - overseas quoted	0.1
0.4		0.2

The volatility of investment markets is an ever-present and longstanding feature of pension fund management, and valuations may vary, either up or down, throughout each day when exchanges are open. The change in the value of investments during 2012/13 is set out below:

	Value as at 31 March 2012 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 March 2013 £m
Fixed interest securities	158.8	-	-	15.1	173.9
UK equities	840.5	30.2	(22.8)	95.6	943.5
Overseas equities	1,779.3	186.8	(154.5)	260.9	2,072.5
Pooled investment vehicles	5,213.3	817.6	(800.9)	499.4	5,729.4
Property	615.4	13.4	(36.2)	(25.0)	567.6
	8,607.3	1,048.0	(1,014.4)	846.0	9,486.9
Broker balances	0.2				(0.1)
Outstanding dividend entitlement and recoverable withholding tax	11.1				15.4
Foreign currency	43.7				82.9
Cash deposits	139.3				241.1
Total investments	8,801.6				9,826.2

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profit and losses on the sale of investments shown in the Fund Account includes an additional £97.7 million which represents profit realised on sale of the Fund's assets.

31 March 2013 £m		31 March 2014 £m
	Financial assets	
846.0	Fair value through profit and loss	85.4
846.0	Total	85.4

31 March 2013			31 March 2014	
Carrying value £m	Fair value £m		Carrying value £m	Fair value £m
		Financial assets		
9,486.9	9,486.9	Fair value through profit and loss	9,836.5	9,836.5
339.3	339.3	Loans and receivables	255.4	255.4
9,826.2	9,826.2	Total	10,091.9	10,091.9

Notes to the Accounts

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed-income securities, quoted index-linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the *International Private Equity and Venture Capital Valuation Guidelines*, which follow the valuation principles of IFRS and US GAAP. The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Values at 31 March 2014				
Financial assets				
Financial assets at fair value through profit and loss	5,941.9	1,528.6	2,366.0	9,836.5
Loans and receivables	255.4	-	-	255.4
Total financial assets	6,197.3	1,528.6	2,366.0	10,091.9
Values at 31 March 2013				
Financial assets				
Financial assets at fair value through profit and loss	5,538.4	1,484.3	2,464.2	9,486.9
Loans and receivables	339.3	-	-	339.3
Total financial assets	5,877.7	1,484.3	2,464.2	9,826.2

Notes to the Accounts

18. Investment Capital Commitments

Investment commitments at the end of the financial year in respect of future payments were:

31 March 2013 £m		31 March 2014 £m
808.7	Non-equities	920.8
139.0	Property	146.5
947.7		1,067.3

These commitments relate to outstanding commitments due on funds held in the private equity, property and infrastructure portfolios.

19. Current Assets

Investment commitments at the end of the financial year in respect of future payments were:

31 March 2013 £m		31 March 2014 £m
	Receivables and prepayments	
	Contributions receivable	
21.6	• Employers	-
8.4	• Employees	-
42.5	Other receivables	71.2
72.5	Total receivables and prepayments	71.2
0.7	Cash	(0.1)
73.2	Total current assets	71.1

Note: Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This is to be paid in ten equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The balance due included in 'Other receivables' is £19.4 million (2012/13: £19.4 million). During 2013/14 no payments were received and deducted from the debtor as the payment for 2013/14 was made early (in March 2013).

31 March 2013 £m		31 March 2014 £m
	Analysis of receivables	
	Contributions receivable	
-	Central government bodies	-
51.5	Other local authorities	21.5
-	Public corporations	-
21.0	Other entities and individuals	49.6
72.5	Total	71.1

20. Current Liabilities

Investment commitments at the end of the financial year in respect of future payments were:

31 March 2013 £m		31 March 2014 £m
	Payables and receipts in advance	
(4.1)	Pensions and lump-sum benefits	(4.3)
(8.9)	Other payables	(14.3)
(0.1)	Trustee account	-
-	Bulk transfer-pension increases	-
(13.1)	Total	(18.6)

31 March 2013 £m		31 March 2014 £m
	Analysis of payables	
(3.2)	Central government bodies	(8.2)
(0.1)	Other local authorities	(0.1)
(9.8)	Other entities and individuals	(10.3)
(13.1)	Total	(18.6)

21. Additional Voluntary Contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions are not included within the fund accounts, in line with regulation 4 (2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009. The table below shows the activity for each AVC provider in the year.

31 March 2013		31 March 2014	
Equitable Life £m	Prudential £m	Equitable Life £m	Prudential £m
2.9	27.5	2.7	30.2
-	7.3	-	7.3
(0.4)	(5.0)	(0.4)	(7.8)
0.2	0.4	0.1	6.1
2.7	30.2	2.4	35.8

22. Post-Year-End Transactions

The responsibility for the pension administration of the Staffordshire and West Midlands Probation Trust will transfer to Greater Manchester Pension Fund on 1 June 2014. The draft Local Government Pension Scheme (Offender Management) Regulations 2014 set out the basis of the bulk transfer calculation, together with specified payment dates. The valuation of the bulk transfer and the associated payment will be determined in 2014/15 between the actuaries of West Midlands Pension Fund and Greater Manchester Pension Fund. No adjustment is required to be made in the 2013/14 financial statements.

The Local Government Pension Scheme (LGPS) will change as at 1 April 2014. The changes are effected under the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. This sets out the basis for the future structure of pension payable through the LGPS from 2014/15 onwards and details the protections in place for existing pensions built up prior to 1 April 2014. The main change is that pensions accrued from 1 April 2014 will be based upon a career average revalued earnings (CARE) scheme, whereas previously this was based upon a final salary basis. The effect of the changes will be taken into account in actuarial valuations and will impact upon employers' contribution rates from 2014/15. There is no financial effect on the financial statements for 2013/14.

Notes to the Accounts

23. The Nature and Extent of Risks Arising From Financial Instruments

Risk Management

The Fund's activities expose it to a variety of financial risks including:

Investment risk - the possibility that the Authority will not receive the expected returns.

Credit risk - the possibility that the other parties might fail to pay amounts due to the Authority.

Liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.

Market risk - the possibility that financial loss might arise as a result of stock market movements. Currency risk, other price risk and interest rate risk are types of market risk.

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies covering specific areas relating to the Fund are as follows:

Investment Risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by investing with regard to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted a 90% exposure to return seeking assets such as equities, property, other alternatives with equity-like returns, including emerging market debt and higher return fixed interest investments, the remaining 10% being allocated to stabilising assets, such as UK Government bonds or gilts, both index-linked and conventional.

Risks in return seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of return seeking

assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

Counterparty Risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by Fund officers in relation to suitability and performance, in addition to compliance with regulatory and Fund-specific requirements.

Credit Risk

The Fund's deposits with financial institutions as at 31 March 2014 totalled £211.6 million in respect of temporary loans and treasury management instruments. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the *Compliance Manual*. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2014 is shown below:

Credit Rating Sensitivity Analysis

Summary	Rating	Balances as at 31 March 2013 £m	Balances as at 31 March 2014 £m
Money market funds			
AIM STIC Global Sterling Portfolio	AAA	79.4	28.3
HSBC Sterling Liquidity Fund	AAA	81.7	43.3
Northern Trust Global Sterling Fund	AAA	1.2	-
Short-term deposits			
Nationwide Building Society	A	-	25.0
Banco Santander	A	8.0	23.5
Lloyds Bank Plc	A	-	13.0
Coventry Building Society	A	5.0	12.0
Skipton Building Society	BBB-	-	8.5
Principality Building Society	BBB+	-	8.0
Newcastle Building Society		5.0	-
Barclays		9.0	-
Bank deposit accounts			
Nat West Liquidity Select	A	50.0	50.0
Total		239.3	211.6

Notes to the Accounts

Liquidity Risk

The Fund has a comprehensive daily cashflow management procedure which seeks to ensure that cash is available as needed. Due to the cashflow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

Foreign Exchange Risk

The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the Fund's currency exposure is managed in line with the daily cash management policy.

Securities Lending

As at 31 March 2014, £171.4 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender. The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £184.6 million, giving a margin of 7.71%.

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Income from stocklending amounted to £0.6 million during the year and is detailed in note 15 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers;

therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational Risk

The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance, ensures that reputational risk is kept to a minimum.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk, which arises from investments held by the fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk: Sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset type	Value as at 31 March 2014 £m	% Change	Value on increase £m	Value on decrease £m
UK equities	1,004.3	16.6%	1,171.0	837.6
Global equities (ex-UK)	3,625.0	19.4%	4,328.3	2,921.8
Property	927.8	14.7%	1,064.2	791.4
Corporate bonds (short-term)	93.7	7.2%	100.4	87.0
Corporate bonds (medium-term)*	620.4	9.6%	680.0	560.8
Corporate bonds (long-term)	168.6	18.0%	198.9	138.3
UK fixed gilts (short-term)	104.0	3.1%	107.2	100.8
UK fixed gilts (medium-term)**	117.3	6.9%	125.4	109.2
UK fixed gilts (long-term)	45.7	12.3%	51.3	40.1
UK index-linked gilts (short-term)	70.9	2.3%	72.5	69.3
UK index-linked gilts (medium-term)	201.3	5.0%	211.4	191.2
UK index-linked gilts (long-term)	366.8	8.5%	398.0	335.6
Commodities	189.6	13.7%	215.6	163.6
Cash	160.7	0.6%	161.7	159.7
Private equity	1,240.5	28.4%	1,592.8	888.2
Infrastructure	293.4	15.9%	340.1	246.7
High-yield debt***	214.5	13.2%	242.8	186.2
Absolute return/diversified growth	642.5	11.8%	718.3	566.7
Total asset	10,087.0		11,779.8	8,394.2

*includes exposure emerging market debt (£263.7 million), loans (£90.0 million) and the Newton Dynamic Bond Fund (£48.1 million)

**includes exposure to overseas bonds (£74.5 million)

***includes mezzanine debt and convertibles

Notes to the Accounts

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The following tables summarise the Fund's currency exposure as at 31 March 2014:

Asset type	Value as at 31 March 2014 £	% Change	Value on Increase £	Value on decrease £
Overseas equities	3,625.0	13.0%	4,096.3	3,153.8
Private equity	1,055.7	13.0%	1,192.9	918.5
Fixed interest	263.7	13.0%	298.0	229.4
Alternatives	574.5	13.0%	649.2	499.8
Property	217.8	13.0%	246.1	189.5
Liquid assets	42.2	13.0%	47.7	36.7
Total	5,778.9	13.0%	6,530.2	5,027.6

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest Rate Risk - Sensitivity Analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The fund's consulting actuary has advised that the assumed interest rate volatility is 100 basis points per annum.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS change in interest rates:

31 March 2013 £m		31 March 2014 £m
239.3	Cash & cash equivalents	211.6
84.7	Cash balances	52.1
1,034.3	Fixed interest securities	906.0
1,358.3	Total	1,169.7

Asset Type	Carrying amount as at 31 March 2014 £m	Change in year in the net assets available to pay benefits	
		+100BPS £m	-100BPS £m
Cash & cash equivalents	211.6	2.1	(2.1)
Cash balances	52.1	0.5	(0.5)
Fixed interest securities	906.0	9.1	(9.1)
Total change in assets available	1,169.7	11.7	(11.7)

24. Impairment for Bad and Doubtful Debts

The following additions and write-offs of pension payments were reported in this financial year, in line with the Fund's policy:

Additions analysis*	Number	Total £
Less than £50	10	183.50
£50 - £100	1	69.30
£100 - £500	1	128.94
Over £500	0	0.00
Total	12	381.74

*Additions analysis refers to income collected after it has been written off.

Write-off analysis	Number	Total £
Less than £50	7	165.58
£50 - £100	28	2,061.82
£100 - £500	47	11,164.70
Over £500	12	16,704.97
Total	94	30,097.07

25. Related Parties

The pensions administration function and the in-house management of investments are performed by Wolverhampton City Council, and the costs shown in note 12 on page 51 are recharged to the Fund each year on an estimated basis with an end-of-year adjustment for actual costs shown as receivable or payable in the accounts. This is a related-party transaction as Wolverhampton City Council is also a member body of the Fund.

Key management personnel who are employees of the administering authority and members of the Fund are disclosed in the administering authority's statement of accounts along with details of remuneration and pensions contributions.

There is one member of the Pensions Committee who is in receipt of pension benefits from the West Midlands Pension Fund (Councillor Turner). There are six Committee members who are active members of the Fund (Councillors S Eling, M Evans, S Evans, L McGregor, T Singh and V Silvester). Each member of the Pensions Committee is required to declare their interests at each meeting.

Annual Governance Statement 2013/2014

Scope of Responsibility

Wolverhampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This code is incorporated within the Council's Constitution, which is available for review on the Council's website.

The Council is also responsible for the strategic management and administration of the West Midlands Pension Fund with the Council's Chief Executive, Monitoring Officer and Section 151 Officer holding specific responsibilities for supporting the members of the Pensions Committee in their role.

Wolverhampton Homes is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from one-third Council, one-third tenants and one-third independent. There is a management agreement between the Council and Wolverhampton Homes which sets out the contractual and governance arrangements between the parties.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of risk management and internal control are based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the annual report and statement of accounts.

Annual Governance Statement 2013/2014

The Governance Framework and Review of Effectiveness Throughout 2013/14

The Council has the following Corporate Plan aims and themes: Encouraging Enterprise and Business, Empowering People and Communities, Re-Invigorating the City and Confident, Capable Council, which are underpinned by the governance environment. This environment is consistent with the six core principles of the CIPFA/ SOLACE framework.

The key elements of the systems and processes that comprise the Council's governance framework, and where assurance against these is required, are described below.

Core principles of the CIPFA/SOLACE framework	Assurance required	Governance framework providing assurance	Review of effectiveness	Issues identified
<p>Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.</p> <p>Members and officers working together to achieve a common purpose with clearly defined functions and roles.</p> <p>Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.</p> <p>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.</p> <p>Developing the capacity and capability of members and officers to be effective.</p> <p>Engaging with local people and other stakeholders to ensure robust public accountability.</p>	<ul style="list-style-type: none"> ● Delivery and communication of an agreed corporate plan ● Quality services are delivered efficiently and effectively ● Clearly defined roles and functions ● Management of risk ● Effectiveness of internal controls ● Compliance with laws, regulation, internal policies and procedures ● Value for money and efficient management of resources ● High standards of conduct and behaviour ● Public accountability ● Published information is accurate and reliable ● Implementation of previous governance issues 	<ul style="list-style-type: none"> ● The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) ● Council, Cabinet and Committees ● Scrutiny function ● Audit Committee (and Sub-Committee) ● Standards Committee ● Internal and External Audit ● Strategic Executive Board ● Corporate Development Board ● Directors Assurance Statements ● Corporate and Business Plans ● Medium-Term Financial Strategy ● Corporate Risk Register ● Codes of Conduct ● Business Planning and Performance Management Framework ● Whistleblowing and other anti-fraud related policies ● Complaints System ● Financial Procedures Rules ● Contracts Procedure Rules ● Committee Management Information Systems (now modern.gov) 	<ul style="list-style-type: none"> ● Statement of Accounts 2013/14 ● External Audit Report to Those Charged with Governance (ISA 260) Report 2013/14 ● Annual Internal Audit Report 2013/14 ● Annual Audit Committee Report 2013/14 ● Local Government Ombudsman Report 2013/14 ● Scrutiny reviews ● Annual Governance Statement – follow up of 2012/13 issues ● Director of Public Health Annual Report 2013/14 	<ul style="list-style-type: none"> Corporate Landlord/ FutureSpace Savings Targets PSN Compliance Contract Management and Monitoring Procurement Health and Social Care Reforms FutureWorks Partnership Governance Information Governance Strategic Asset Management Schools Improvement

Annual Governance Statement 2013/2014

West Midlands Pension Fund

The West Midlands Pension Fund have completed their own 'Assurance Framework – Supporting the Annual Governance Statement' which identified that there had been no adverse matters arising from the work behind their assurance framework.

Wolverhampton Homes

Wolverhampton Homes have included a *Statement of Corporate Governance* within the company's financial statements for 2013/14. This states that the control framework has been reviewed by the Company's Audit Committee on behalf of the Board of Wolverhampton Homes and found to be effective. The review included an assurance statement from the company's internal auditors.

In reviewing the Council's priorities and the implications for its governance arrangements, the Council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

The key changes to the governance framework during the year include:

- The transition of Public Health Services to the Council from 1 April 2013.
- The establishment of the Health and Well-Being Board as a committee of the Council which has responsibility for tackling local health inequalities.
- The implementation of and compliance with the Public Sector Internal Audit Standards from 1 April 2013.
- An updated terms of reference for the Audit Committee

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the members and senior officers within the Council who have responsibility for the development and maintenance of the governance framework, Internal Audit's annual report, the Scrutiny function and also by reports made by the Council's external auditors and other review agencies and inspectorates, as noted above.

Internal Audit has concluded that based on the work undertaken during the year of areas key risk, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes. Key areas of concern have been included within the governance issues noted below.

There is a requirement to report in this Statement that the authority is not fully compliant with CIPFA's Statement on the Role of the Section 151 Officer in Local Government (2009) as the Section 151 Officer post is not at the same level in the Authority as members of the Corporate Management Team (known as the Strategic Executive Board) and they do not report directly to the Chief Executive. However, alternative arrangements are in place whereby the Section 151 Officer attends meetings of the Corporate Management Team and has direct access to the Chief Executive when required.

A number of issues were identified in the 2012/13 Annual Governance Statement and an update of the progress made in implementing the actions to improve these areas is included below. Where sufficient progress has not been made, the issues have been included in the 2014/15 issues.

2012/13 - Key areas for improvement

FutureSpaces: Corporate Landlord

The management of and responsibility for the Council's property assets is currently split between two directorates. Several initiatives and proposals for maintenance programmes and better targeted use of properties have been put forward. It is necessary that clarity of ownership and control of decision making is determined to ensure effective progress is made. Also work is ongoing to improve the co-ordination of responsibilities as the Council develops the role of a 'Corporate Landlord' between the Directorates, along with the continued development of a 'One Council' approach to the use of land and assets and the development of options and a strategy to utilise available properties for community use that are not Council-owned property.

Update on position and implication for the 2013/14 Annual Governance Statement

The Corporate Landlord

The necessary planning for the introduction of the Corporate Landlord was completed to the set deadlines with the Corporate Landlord subsequently having been implemented incrementally. The key outputs being as follows:

- The approved governance arrangements are now fully operational with the Strategic and Operational Land and Property Boards meeting regularly with integrated work programmes, with shared programme management resources.
- The Strategic Asset Review is scheduled for completion in June 2014 as planned.
- There has been a lifting and shifting of property related service functions from the Community Directorate and the Education and Enterprise Directorate to create the Corporate Landlord in the Delivery Directorate. This is being followed by a budget centralisation and review exercise and process redesign.

FutureSpaces

A delivery plan is being developed based on the Council supported by technical advisors developing the detailed design for the refurbishment of the Civic Centre for the open tendering of the refurbishment works through an OJEU notice. This is essential to ensure a robust final business case for the Cabinet to approve to give a final approval to the programme.

Carried forward to 2013/14

Annual Governance Statement 2013/2014

2012/13 - Key areas for improvement

Information Governance

Following critical in-year reviews by the Information Commissioners Office in August and December 2012, the Council is putting in place a robust framework and effective working practices, including:

- An established and operational Information Governance Board
- Mapped out work programme and resources
- A new information governance structure
- Information governance policies have been approved
- Training programmes are underway

Update on position and implication for the 2013/14 Annual Governance Statement

The Information Governance Board continues to meet, and is now supported by an operational group to progress key issues in relation to information governance.

The Council has now centralised all information governance resource into one team which has enabled the development of a single work programme, against which significant progress is being made. The work plan and maturity model were endorsed by the Cabinet in March 2014, and progress has also been scrutinised by the Council's Scrutiny Board.

The mandatory training module has been rolled out primarily by e-learning but supported by a number of training sessions for employees, and 100% compliance has been completed.

The council is both PSN and Public Health Information Governance Toolkit compliant, and is on track to submit the Social Care Toolkit.

Carried forward to 2013/14

2012/13 - Key areas for improvement

Partnership Governance

Partnerships are increasingly common and increasingly important to the Council, in order to deliver the Corporate Plan and respond to the localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the 'third sector'. Although each of these partnerships is formed to generate beneficial outcomes they also carry different types of risks and governance can be problematic.

In addition, some of the Council's partnerships have been in place for a number of years and the 'health' and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities. Therefore, the Council is to adopt a revised systematic and consistent approach to identifying its significant partnerships. Once the significant partnerships have been identified, a systematic review of the governance arrangements and the 'health' of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and councillors with portfolio responsibilities.

Update on position and implication for the 2013/14 Annual Governance Statement

Work has begun on a number of the Council's partnerships including:

Black Country Working

A Black Country Joint Committee and Advisory Board has been established by Wolverhampton City Council and the three neighbouring local authorities and the Black Country LEP. This will provide strong joint governance for the Black Country City Deal and Black Country Growth Deal. A framework of how this inter-relates with the Council governance has been produced and considered by the Strategic Executive Board.

City Partnerships

The Local Strategic Partnership has been replaced by a City Board that will drive forward the City Strategy (the Sustainable Communities strategy for the city). The representatives on the City Board are the Leader and the Chief Executive. The Board is in shadow form, until September 2014. The governance framework will also continue to be checked and rolled out across the key partnerships.

Carried forward to 2013/14

2012/13 - Key areas for improvement

Contract Management and Monitoring

The Council has historically had an inconsistent approach to its contract monitoring. New processes are being put in place to ensure that contracts can be monitored and reviewed on an ongoing basis for value for money in the future.

Update on position and implication for the 2013/14 Annual Governance Statement

A draft guidance document for contract management is in the early stages of discussion and it will be necessary to develop this approach widely across the Council, and agree how it can be applied. A simple set of procedures to support the approach will be added to contract procedure rules. It will then be necessary to identify contract managers and provide training. Timing for these activities is currently being worked up.

Carried forward to 2013/14

Annual Governance Statement 2013/2014

2012/13 - Key areas for improvement

Procurement

The Interim Head of Procurement had raised concerns over past tendering processes and the failure to follow the Council's Contract Procedure Rules. Following an independent review, these concerns were supported by the findings of Internal Audit who identified a number of cases of inconsistencies and ambiguities at various stages of the procurement processes. The recommendations arising from the audit review were agreed and a range of improved working practices are being put in place.

Update on position and implication for the 2013/14 Annual Governance Statement

The adoption of the Due North e-tendering system and the Agresso ordering system has provided much improved controls and management information and the continued refinement and use of these systems enhances accountability and compliance across the Council. The Procurement Board have agreed to consider amendments to the contract procedure rules to simplify and rationalise the working practices in procurement. Once the Board has considered the revisions and agreed any changes to be made within the constitution, a structured training programme can be developed.

Carried forward to 2013/14

2012/13 - Key areas for improvement

Savings Targets

While the Council's current and historical savings targets have been largely delivered, there are still a limited number of such targets that have not yet been and also some, where proposals are yet to be developed. A failure to meet these targets will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and councillor level.

Update on position and implication for the 2013/14 Annual Governance Statement

All savings were fully reviewed and re-evaluated as part of the 2014/15 budget setting process that was completed in March 2014. This process identified that a number of savings that were reflected in the 2013/14 budget were to be achieved in an alternative way and not as originally planned. These changes have been reflected in the rebased 2014/15 budget and the original savings removed. In addition, no significant adverse overall impact arose during 2013/14 as a result of the savings targets that were included in the budget.

2012/13 - Key areas for improvement

Resilience Function (Emergency Planning and Business Continuity)

The Council has identified issues in its ability to respond fully to its responsibilities under the Civil Contingencies Act. The Cabinet has approved the creation of a new Resilience Team in 2013/14 to bring together the separate Emergency Planning and Business Continuity functions. This is to underpin the delivery of the new *Major Incident Plan* and suite of subsidiary plans. The Resilience Team will operate within new governance arrangements and report to a Board. The Board will oversee the delivery of the adopted project plan for Resilience that will be reviewed monthly by the Strategic Executive Board. Annual audits will also be conducted to validate progress against the project plan.

Update on position and implication for the 2013/14 Annual Governance Statement

The Resilience Board is now fully operational against the approved governance arrangements. The Board has developed a work programme for 2014/15 that integrates Council and Public Health roles and responsibilities. Good progress is being made against this work programme.

2012/13 - Key areas for improvement

Equalities

The Council has identified issues in its ability to respond fully to its responsibilities in respect of equalities and consultation. An Equalities Project Board has been formed and approved an equalities work programme. This programme identifies ways of mainstreaming and promoting best equalities practice. Appropriate measures will be implemented during 2013/14.

Update on position and implication for the 2013/14 Annual Governance Statement

To further support the roll out of the equalities training a number of employee briefing sessions have been delivered. The Equalities Member Champion continues to chair quarterly the Equalities Advisory Group. An internal officer equalities steering group has also been instigated and meets at least quarterly. Finally, a cumulative equality analysis of the budget was conducted, and lessons learnt from the process have been captured in order to continue to improve the equality analysis toolkit.

Annual Governance Statement 2013/2014

Action Plan for the Significant Governance Issues Identified During 2013/14 Which Will Need Addressing in 2014/15

Based on the Council's established risk management approach, the following issues have been assessed as being 'significant' for the purpose of the 2013/14 annual governance statement. Over the coming year, appropriate actions to address these matters and further enhance governance arrangements will be taken. These actions will address the need for improvements that were identified in the review of effectiveness, and their implementation will be monitored as part of the next annual review and risk management arrangements in place.

2013/14 - Key improvement areas and actions for implementation

FutureSpaces

Delivery arrangements are being developed for the refurbishment of the Civic Centre. The intention is that construction works will begin in early 2015 subject to the final business case evidencing an ongoing annual revenue saving of £500,000.

Corporate Landlord

The adoption of the Corporate Landlord Model is being progressed incrementally against the *Strategic Asset Management Review*. The adopted work programme for the implementation was approved by both the Strategic Land and Property Board and the Operational Land and Property Board and is now being actively monitored by both Boards. The key deliverables in the programme include:

- Centralisation of property-related budgets.
- Creation and delivery of a funded programme of annual condition surveys and statutory testing.
- Creation and delivery of more robust cyclical maintenance programme based on the annual condition surveys.
- Development and delivery of a more robust Disposal Programme to achieve the capital receipts from disposals in the MTFS.
- Agreement of service profiles by building profile for services for Facilities Management to deliver to their clients.
- Development and delivery of the annual renewables programme.
- Support to service reviews being conducted with Directorates in respect to providing options appraisals in respect to meeting the property needs for new service operating models.
- Development of a revised *Corporate Asset Management Plan*.

Responsibility and expected implementation date

Assistant Director, Delivery
February 2015

2013/14 - Key improvement areas and actions for implementation

Savings Targets

Whilst the Council's current and historical savings targets have been largely delivered, the extremely challenging financial environment continues to require substantial year on year savings. The failure to deliver already identified savings and develop further savings will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and councillor level.

Responsibility and expected implementation date

Assistant Director, Finance
March 2015

2013/14 - Key improvement areas and actions for implementation

PSN Compliance

Prior to 2013 Wolverhampton City Council obtained GCSx accreditation enabling secure access to and exchange of information with central government and government agencies. The introduction of the Public Services Network (PSN) during 2013 demanded improved technical security standards and more robust information governance requirements. Wolverhampton City Council's compliance with the PSN Code of Connection requirements was approved by the Cabinet Office on 19 November 2013 following an independent health check of the Council's ICT estate, looking for vulnerabilities from external sources of attack and from within the Council followed by a comprehensive evaluation of the Council's network and security architecture, ICT operational practices and information governance policies by CLAS consultants at the Cabinet Office. PSN compliance remains at the heart of all ICT decisions regarding the introduction of new services. A continual programme of infrastructure upgrades and refresh ensures compliance is maintained, with the Council undertaking the annual accreditation process during May and June 2014.

Responsibility and expected implementation date

Head of Service, ICT
March 2015

2013/14 - Key improvement areas and actions for implementation	Responsibility and expected implementation date
<p>Contract Management and Monitoring</p> <p>Having identified the range of contracts that are in place the main task is to establish how the reporting process is being managed and whether the contracts are meeting their original expectations. With the wide variety of contracts it will be necessary to develop several different approaches to contract management however the main principles will be early involvement for the contract managers (at tender stage), regular reporting on performance, planned reviews to assess the options available and general awareness training for nominated contract managers.</p>	<p>Strategic Director, Delivery Assistant Director, Finance March 2015</p>
<p>2013/14 - Key improvement areas and actions for implementation</p> <p>Procurement</p> <p>The Procurement Board will be instrumental in guiding the development of strategic procurement. The introduction and utilisation of e-procurement systems (Agresso and Due North) will increase the overall visibility of spend and the profile of this spend can be matched to the contract register. The improved management information will be useful to target particular categories of expenditure and develop procurement strategies that will extract value for money. The use of market sounding, options appraisals and output-based specifications will also contribute to improving budgetary controls and increasing the percentage of on contract spend. We will be using collaborative arrangements, where these are beneficial to the Council, and selecting the appropriate frameworks will be carried out in conjunction with the operational experts. The use of standardised forms and procedures will also aid compliance.</p>	<p>Strategic Director, Delivery Assistant Director, Finance March 2015</p>
<p>2013/14 - Key improvement areas and actions for implementation</p> <p>Health and Social Care Reforms</p> <p>Over the next few years, adult social care is required to take a lead role in implementing a service delivery transformation to effectively respond to a number of challenges and opportunities which arise due to significant budget reductions and changes to local and national policy. To be delivered successfully, the service transformation involves putting agreed strategies and plans in place. One of the strategies to be implemented is the Better Care Fund which is an integrated pooled budget to support health and social care to work together in local areas. To achieve the outcomes of the Fund will require strong partnership working. Significant planning and investment of resources will also be required to set up primary care, prevention and community services in order to achieve the fund outcomes. Another strategy the Council will be required to implement will be the Care and Support Bill in April 2015. Mapping, analysis and assessment of the detailed requirements of the Bill to identify the resources required to implement the changes, needs to be undertaken to fully assess the impact of the Bill on the Council. The Health and Wellbeing Board will be accountable for the authorisation and delivery of the Fund. The terms of reference and governance of the Health and Wellbeing Board are being reviewed to take account of these new responsibilities'.</p>	<p>Assistant Director, Health, Wellbeing and Disability March 2015</p>
<p>2013/14 - Key improvement areas and actions for implementation</p> <p>FutureWorks</p> <p>The FutureWorks Programme delivered the new Agresso IT system on 1 April 2014 in line with the contractual timescales. This new system and processes are being used across the Council and its partner organisations of Wolverhampton Homes and West Midlands Pension Fund. This successful delivery has enabled the council to start delivering the agreed year-one savings. The Council is now embarking on delivering phase 2 of the programme in rolling out self-service functionality which will maximise the return on investment as Council services are transformed. The Council will continue to manage the risks around the general governance and structure of this programme and through the general programme controls it will bring.</p>	<p>Strategic Director, Delivery Assistant Director, Finance March 2015</p>
<p>2013/14 - Key improvement areas and actions for implementation</p> <p>Partnership Governance</p> <p>While work has begun on a number of the Council's key partnerships, a systematic approach to identifying all of the significant partnerships and in determining the level of review of the governance arrangements alongside the 'health' of each partnership, is still being rolled out and will be quite a sizeable task.</p>	<p>Assistant Director, Partnerships, Economy and Culture supported by the Chief Legal Officer March 2015</p>

2013/14 - Key improvement areas and actions for implementation	Responsibility and expected implementation date
<p>Information Governance</p> <p>The Council is building on the robust framework and effective working practices it has put in place since consensual audits from the Information Commissioner's Office in 2012 and an enforcement notice in 2014, including:</p> <ul style="list-style-type: none"> Supporting the Information Governance Board through the development of an operational group to drive progress Mapped out a centralised work programme and resources including a new structure Review of all information governance policies Roll out of a suite of training programmes, including ensuring there is 100% compliance with the mandatory 'Protecting Information' training to all employees. 	<p>Head of Policy March 2015</p>
<p>2013/14 - Key improvement areas and actions for implementation</p> <p>Strategic Asset Management</p> <p>The Corporate Landlord model has now been formally adopted by the Council. The implementation of the model and developing a clear understanding of the accountability for activities and financial management will continue. As part of the Corporate Landlord approach, Strategic and Operational Land and Property management is now covered by two governance Boards. The Strategic Land and Property Board is chaired by the Strategic Director Education and Enterprise, and attended by the Corporate Landlord (Strategic Director Delivery). The Operational Land and Property Board is chaired by the Strategic Director Delivery. The Strategic Land and Property Board meets monthly and the Operational Land and Property Board meets fortnightly. Both Boards consider land and property matters and consult members through the existing processes of Cabinet Member Briefing; Property Advisory Group and Executive Team prior to decisions being formally made in line with the Council's Constitution. The Strategic Asset Review has now concluded with the agreed categorisation of assets, and clear accountability established for assets including those considered to be of strategic importance (for Economic Growth and Regeneration including Housing). Strategic Asset Management will in the future be supported by the Corporate Landlord's Asset Management team acting as a single source of information and knowledge for the Council's assets making sure that the respective governance boards are provided with accurate and relevant information enabling informed decision making and direction.</p>	<p>Strategic Director, Education and Enterprise and Assistant Director, Delivery March 2015</p>
<p>2013/14 - Key improvement areas and actions for implementation</p> <p>Schools Improvement</p> <p>The Council's vision is to create an education system in Wolverhampton that promotes higher standards for all children and young people and closes the attainment gap. This is a system where the Council celebrates school autonomy and supports school leaders and teachers in leading school improvement and having the highest expectations of every child and young person. The Council's strategic approach to school improvement therefore is to support effective school to school collaboration, strong partnerships and to develop excellent practice in schools whilst demonstrating clear leadership and challenge in the delivery of its duties in relation to school improvement. This leads to three clear and related targets:</p> <ul style="list-style-type: none"> To ensure that every child in the city has an excellent education. To raise standards in schools and academies so that by September 2016 attainment and progress measures at all key stages match or exceed national averages. To improve the quality of provision in schools and academies so that by September 2016 all schools, settings and academies achieve an Ofsted inspection judgement of good or outstanding. 	<p>Assistant Director, Education and Enterprise March 2015</p>

Future Assurance: Progress reports on the implementation of the above actions from these key improvement areas will be produced by Audit Services and reported to the Audit Committee during 2014/15.

Certification

To the best of our knowledge, the governance arrangements, as outlined above, have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Roger Lawrence,
Leader of the Council

Simon Warren,
Chief Executive

Date: September 2014

Date: September 2014

Appendices

Policy Documents

Statement of Investment Principles 2014

Socially Responsible Investment Statement 2014

Funding Strategy Statement 2014

Governance Compliance Statement 2013

Communications Policy Statement 2014

Administering Authority Policy Statement 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 71. 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.

Statement of Investment Principles 2014

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.

Statement of Investment Principles 2014

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.

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 has moved 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 75.

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%).

Statement of Investment Principles 2014

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 77.

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.

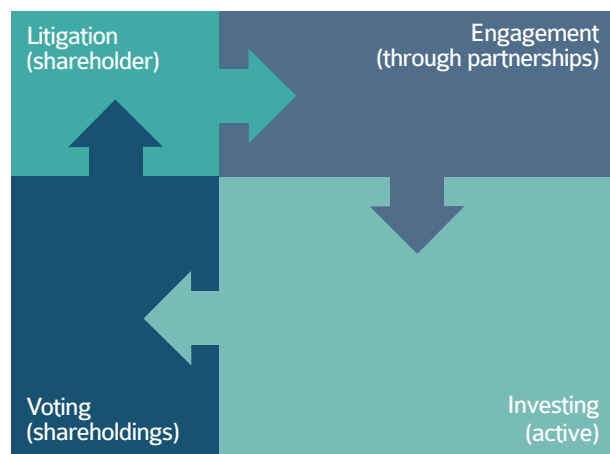
Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.

Statement of Investment Principles 2014

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.

Statement of Investment Principles 2014

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 at wmpfonline.com.

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)

Statement of Investment Principles 2014

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	5.0		
UK gilts	4.0		
Corporate bonds	5.5		
Emerging market debt	3.5		
Cash	1.0		
Alternative		23	15-25
Direct property	6.0		
Indirect property	3.0		
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:
 - c50% stabilising
 - c50% 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.

Statement of Investment Principles 2014

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

Socially Responsible Investment Statement 2014

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 set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active governance policy.

a) Definitions

i) Governance Background

The corporate governance requirements on companies and investors has built over the years based upon a number of reports, codes and legislative requirements. These include the following:

- Companies Act.
- UK listing requirements.
- Model code covering
 - Insider trading
 - Financial services legislation
 - Market abuse issues
- Identified good practice from Cadbury, Greenbury, Hampel reports
- Turnbull report on governance requirements, covering:
 - System of internal control
 - Financial risk
 - Operational risk
 - Reputational risk
 - Compliance
 - Risk management
- Myners' principles.
- Higgs and Smith reports.
- Overriding pensions legislation.
- Combined code covering arrangements for:
 - Board of directors
 - Directors' remuneration
 - Relations with shareholders
 - Accountability and audit
 - Audit committees
- Accounting requirements.
- Stewardship code.
- A robust response to socially responsible and sustainable issues relevant to their sector.

Social responsibility means giving consideration to issues that give rise 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, reputation and practical operational standpoint.

ii) Engagement on Company Governance Issues

Responding to socially responsible investment issues is within the Fund's approach to corporate governance. The Myners' principles indicate funds should follow an active shareholder engagement approach which the Fund does using its position to influence the corporate practices of companies in which it invests.

The reasons for shareholder engagement are:

- i) To improve the position of companies by increasing the prospects of them creating wealth for shareholders and interested parties by minimising business risks and maximising business opportunities.
- ii) Address the risks to the funds assets that arise from poor governance.
- iii) Recognised as good practice.
- iii) Expectation of pension funds by many interested parties (directly and indirectly).

Shareholder engagement is achieved by:

- i) Writing to company management.
- ii) Special meetings with companies.
- iii) Questions and discussions with companies at routine meetings and AGMs.
- iv) Joining in or supporting campaigning or pressure groups.
- v) Issuing public statements/briefings.
- vi) Proxy voting.
- vii) Preparing or supporting shareholder resolutions.
- viii) Investing in specified vehicles looking to improve governance standards and sustainability through positive action.

iii) UN Principles of Reasonable Investment (PRI)

The UN in 2006 with the support of major institutional investors launched the UN Principles of Responsible Investment:

a) *The Framework of the PRI*

The PRI consists of six statements, each of which contains four to eight suggested actions to comply with PRI. The Fund supports this approach. The principles of responsible investment require formal signing to agree the following:

- 1) We will incorporate ESG (environmental, social and governance) issues into investment analysis and decision-making.
- 2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4) We will promote acceptance and implementation of the principles within the investment industry.

Socially Responsible Investment Statement 2014

- 5) We will work together to enhance our effectiveness in implementing the principles.
- 6) We will each report on our activities and progress towards implementing the principles.

There are three types of signatories who may comply with PRI: asset owners, investment managers and professional service partners. Asset owners are long-term investors including pension funds, endowments and government funds.

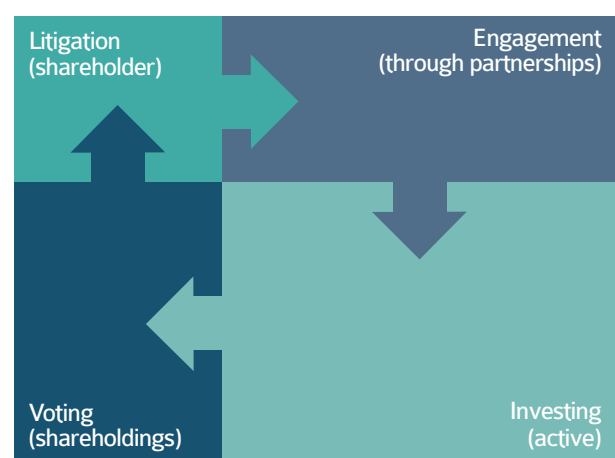
b) PRI vs SRI

While PRI shares some of the same concepts as SRI, such as active ownership and the use of ESG criteria, the two differ in important ways. PRI operates across the totality of investment options and discourages negative screening, whereas SRI is often focussed on a certain strategy and may screen to eliminate potential investments. PRI is also designed to work with the fiduciary requirements of all institutional investors, not just those concerned with SRI. PRI seeks to eventually increase investment returns while lowering risk, which will be accomplished through the signatories' pooling of resources and research to better understand ESG issues while lowering the costs of active ownership. The principles will also allow members to work together to address various problems, such as managing for the short-term and ignoring environmental costs. Resolution of these issues may lead to more stable and profitable market conditions.

b) The Fund's Engagement Process

More than twenty years ago, the Fund's committee identified that a lack of good governance interfered with a company's ability to function effectively and was a threat to the Fund's financial interest in that company. Accordingly, the Committee recognised that it had an obligation to be more proactive and acted by developing a bespoke corporate governance voting policy produced in conjunction with its voting partner, PIRC. Today, the Fund's approach to corporate governance and SRI has further developed and divides into four areas.

ESG Best Practice



i) 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, votes its shares constructively based upon a comprehensive analysis of company voting issues.

The Fund aims to vote at the majority of company AGMs where it has a direct interest. Where possible and practical, the Fund votes on its overseas holdings.

The Fund's voting policy and activity is summarised in its annual report and accounts and published on the Fund's website, where activity is reported on a quarterly basis following a report to each main Pensions Committee meeting.

ii) Engagement Through Partnerships

The Fund's second approach involves working in partnerships with like-minded bodies.

The Fund recognises that to gain the attention of companies in addressing governance concerns it needs to join with other investors with similar concerns. It does this through:

- a) LAPFF
- b) Voting on shareholder resolutions
- c) Joining appropriate lobbying activities
- d) Funding research into governance issues

In terms of its engagement approach with other investors, it is most significant through LAPFF. It is a founding member of LAPFF, an influential body comprising of over fifty public section pension funds based in the UK with combined assets of more than £125bn. LAPFF exists to promote the investment interests of local authority pension funds and believes that standing as a single group maximises their influence as shareholders, promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

The work of LAPFF is detailed on its website: www.lapffforum.org

iii) Shareholder Litigation

A 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 where possible and where appropriate.

iv) Active Investing

The fourth and most challenging activity for the Fund in this particular field is actively seeking SRI investments, provided these meet the Fund's requirements on fundamental investment grounds. Commitments have been made to investments that target strong returns in combination with best practice in SRI. Examples can be found across the Fund's portfolios. In the private equity portfolio, there are the Bridges Community Development Venture funds and a late stage private equity fund focussing on the clean technology sector. The property portfolio has made a commitment to the Igloo Urban Regeneration Fund, which only develops brownfield sites across the UK, combining sustainability and environmental considerations alongside above average property returns.

Socially Responsible Investment Statement 2014

The Fund considers that such investments should form part of the mainstream asset classes and not be viewed as separate, as ideally, going forward SRI and corporate governance should form an integral part of the investment process meeting the Fund's main objective of investing in assets that generate consistent and strong returns.

c) Environmental Considerations

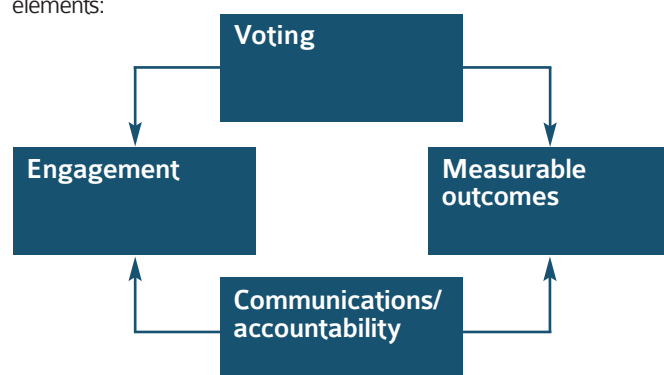
Environmental issues continue to grow in importance for the corporate performance of companies, and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Fund will encourage and support companies 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

d) Measuring the Fund's Governance Activity in its Investments

In responding to the responsibilities of seeking good governance of its individual holdings, the Fund has identified four key measurable elements:



In analysing the Fund's action in these four areas, it has identified the following as measures it is to achieve to demonstrate good governance of the assets it holds in a meaningful and measurable format.

i) Voting at company AGMs and EGMs

- Voting policy in place
- Detailed specific voting template applied
- Votes cast in UK
- Votes cast in US
- Votes cast in Europe
- Votes cast in other countries
- Regular reports to members
- Information available to interested parties
- Clear accountability between shares held and votes cast
- Costs of voting known

ii) Measurable outcomes

- Percentage of votes cast
- Example of changed company behaviour linked to Fund's voting actions

iii) Engagement

- Direct meetings with companies
- Direct sponsorship of governance research
- Joint engagement with others
- Meet Myners' requirements

iv) Communication/Accountability

- Annual report details governance activity
- Information on website on governance
- Information on website on votes cast

Details of the outcomes can be found on the following websites:

- Local Authority Pension Fund Forum (LAPFF) www.lapffforum.org
- West Midlands Pension Fund wmpfonline.com

The Fund's priorities are moving to being set by its approach to risk management – improving the governance of its individual holdings thereby reducing the risk of company failure and loss of value.

Socially Responsible Investment Statement 2014

The Fund takes the opportunity to vote at AGMs and EGMs largely to express its support for the company management, but also to express concern about company governance issues where appropriate.

The concerns are identified by reference to:

- i) The Fund's voting policy statement.
- ii) Governance issues that may arise during the year that impact on a company's management and could impact on shareholder values.

The Fund is working to identify governance issues in its underlying investment holding companies which could damage its long-term financial interests. The risk analysis is based upon the following potential adverse impacts on a company's:

- i) Reputation.
- ii) Falling short of its peers on social, environmental or ethical trends.
- iii) Slow in responding to social changes and trends.
- iv) Falling short of its peers on meeting reporting standards.
- v) Comparatively weak board structure in terms of make-up, expertise, independence.

By identifying these governance risks in companies, the Fund aims, through its engagement strategy, to improve the governance weaknesses and protect its long-term value as shareholders.

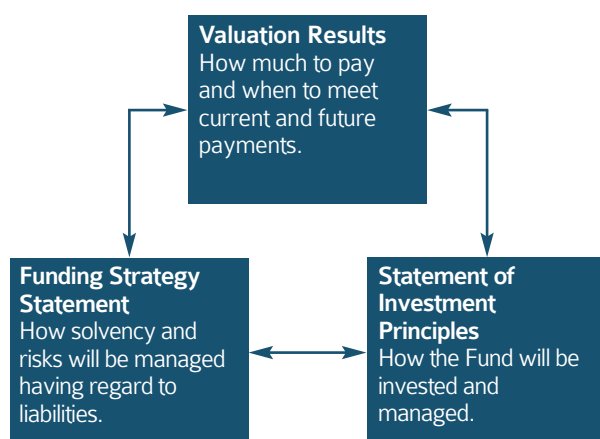
Funding Strategy Statement 2014

1. Introduction

1.1 The LGPS Regulations require funds to produce a *Funding Strategy Statement (FSS)* having regard to the guidance produced by CIPFA. This statement has been drawn up by the West Midlands Pension Fund in accordance with the regulations and following consultation.

1.2 The FSS complements and adds to the *Statement of Investment Principles (SIP)*.

1.3 The statements relate as follows:



1.4 The Fund's actuary takes account of the FSS in his actuarial work for the Fund, most notably, the actuarial valuation process.

1.5 The FSS reflects the statutory nature of the Local Government Pension Scheme (LGPS), particularly the defined benefit nature and the benefit payable guarantee. The FSS sets out how benefits will be funded over the long term through an accountable, transparent process with full disclosure of relevant details and assumptions.

1.6 The LGPS is currently a long-established, well-managed, funded final salary scheme. With effect from 1 April 2014, the LGPS will become a career-average revalued earnings scheme (CARE) and this has been allowed for when assessing the future service rate for employers.

1.7 The Fund, like many other similar public and private sector funded schemes, has a gap between its assets and pension liabilities which this strategy addresses.

1.8 A number of factors have contributed to the funding gap and contribution rates for employers:

- investment returns relative to movement in liabilities;
- increases in longevity of pensioners;
- falling long-term interest rates.
- change in CPI inflation expectations

There are some steps that the actuary can take to assist employing bodies. These include:

- recognising the long-term nature of local government, so that deficits are recovered over time. At the 2013 valuation this will be adjusted to a maximum of 22 years which compares to 25 years at the 2010 valuation. This is expected to reduce to 19 years at the 2016 valuation;
- phasing increases in contributions typically over three years where appropriate;
- recognising the changes to the LGPS with effect from 1 April 2014;
- recognising the changes in financial markets after the valuation;
- giving weight to a balanced investment strategy.

1.9 The Fund, since it was established in 1974, has seen variations in its funding level as did the earlier district funds. Over this long period, there has been a consistent approach with the actuarial valuation process, the link to an investment strategy and balanced management of the risks. The current arrangements continue this approach. The critical element is securing diversified investment market returns from world markets. The Fund has a long record of achieving solid returns for all of its portfolios. The approach adopted is to ensure a priority is given to achieving at least a market return and, as recommended best practice indicates, use asset allocation to deliver a substantial part of the investment target.

1.10 As the pursuit of returns becomes ever more complex, combined with the prospect of diminishing returns, the Fund is becoming increasingly aware of the need to balance the relationship between the different asset classes, their returns, their volatility and their correlation with equities. This constitutes the 'risk budget'.

2. Purpose of the Funding Strategy Statement in Policy Terms

2.1 The purpose of this FSS is:

- To establish a clear and transparent Fund-specific strategy which will identify how employers' liabilities are best met going forward.
- To support the regulatory requirement to maintain the common contribution rate as nearly constant as possible.
- To take a prudent longer term view of funding those liabilities.

2.2 The Fund currently has a strong net cash inflow. The FSS supports the process of ensuring adequate funds are put aside on a regular basis to meet future benefit liabilities. The cashflow will be monitored regularly by officers. The LGPS regulations specify the approach and requirements, the implementation of the funding strategy is the responsibility of the Fund acting on expert advice and following consultation.

2.3 The FSS is a comprehensive strategy for the whole Fund. It balances and reconciles the many direct interests that arise from the nature of the Scheme, and funding of the benefits now and in the future.

Funding Strategy Statement 2014

2.4 The solvency of the Fund is a long-term management issue as required by the regulations in terms of setting the funding target. Currently, the net cash inflow is over £120m pa, but it is essential that funds are made available to ensure all future benefits payments can be met when they become due.

3. Consultation

3.1 The LGPS regulations require the administering authority to consult with such persons it considers appropriate in the maintenance and review of the FSS.

3.2 CIPFA provides further guidance that this must include meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of participating employers.

3.3 Employers participating in the Fund have been consulted on the contents of this FSS and consideration has been given to their views accordingly. However, the FSS represents a single strategy for the Fund as a whole, adjusting for individual employers based on the advice of the Fund actuary.

3.4 In addition, the administering authority has had regard to the Fund's *Statement of Investment Principles* published in accordance with the LGPS regulations.

3.5 The Fund actuary, Mercer, has also been consulted in the contents of this FSS.

4. Aims and Purposes of the Fund

4.1 The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies having regard to the liabilities.
- Manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding.
- Ensure that sufficient resources are available to meet all liabilities as they fall due.
- Maximise the returns from investments within reasonable risk parameters
- Minimise the risks to the Fund from its admission arrangements by strengthening its admission arrangements and pursuing a policy of positive engagement.

4.2 The purpose of the Fund is to:

- Receive and invest monies in respect of contributions, transfer values and investment income.
- Pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses. The Local Government Pension Scheme regulations and, in particular, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 define these purposes.

5. Responsibilities Of The Key Parties

5.1 The LGPS regulations set out the responsibilities of the key parties which are summarised below. Further details are available on the Fund's website where operational and management arrangements are set out.

5.2 The administering authority (Wolverhampton City Council) through its Pensions Committee:

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains a FSS and a SIP.
- Monitors all aspects of the Fund's performance and funding. Amends the FSS and SIP as appropriate. The administering authority discharges its responsibilities with the active involvement from the major employers, the district councils and trade unions representatives combined with consultation with interested parties.

5.3 The individual employers:

- Deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the regulations).
- Pay all contributions, including their own as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain.
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Will make significant progress in the transition to electronic data exchange with the submission of member data via bulk data imports (BDI), initially targeting new joiners, before extending to other processes.
- Discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

5.4 The Fund's actuary:

- Prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Sets employer's contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining common contribution rates that are as constant as possible.

Funding Strategy Statement 2014

- Prepares advice and calculations in connection with bulk transfers and individual benefit-related matters.
- Minimise the risks to the Fund from its admission arrangements by strengthening its admission arrangements and pursuing a policy of positive engagement.

6. Solvency Issues and Target Funding Levels

- 6.1** The Fund currently has a strong net cash inflow and can, therefore, take a medium to long-term view on determining employing body contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long-term view. It allows short-term investment market volatility to be managed so as not to cause volatility in employing body contribution rates.
- 6.2** Nevertheless, the Fund recognizes the different characteristics of the variety of participating employer organisations, and will set funding strategy appropriately having regard to factors such as:
- strength of covenant, and security of future income streams;
 - support or guarantor arrangements from Scheme employers;
 - prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the scheme to new employees.

Taking these factors into account, case-by-case assessment review of contribution requirements may, in some cases, prove necessary as part of the triennial valuation process.

- 6.3** The Fund's policy as regards participation of non-scheduled scheme employers, including termination issues, is set out in the comprehensive publication '*Policy on Termination Funding for Admission Bodies*'.
- 6.4** The LGPS regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements.

The approach to the actuarial valuation process and key assumptions used at each three-yearly valuation are consulted upon and the valuation forms part of the consultation undertaken with the FSS.

Determination of the Funding Target and Recovery Period

- 6.5** The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.
- 6.6** Underlying these assumptions there are two tenets:
- that the scheme is expected to continue for the foreseeable future; and
 - favourable investment returns can play a valuable role in achieving adequate funding over the longer term

- 6.7** As part of each valuation, separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the scheme. In attributing the overall investment performance obtained on the assets of the scheme to each employer, a pro-rata principle is adopted. The general approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the scheme as a whole.

- 6.8** The administering authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:
 - some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
 - whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the administering authority, based on the advice of the actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

- A maximum deficit recovery period of 22 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the administering authority considers this to be warranted (see deficit recovery plan below).
- In current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result in addition to the maximum deficit recovery period of 22 years, the Fund will operate standard deficit recovery periods aligned to strength of covenant based on defined employer groups subject to the maximum lengths set out below.
- For transferee admission bodies, where admission to the LGPS is via a contract or other arrangement, the maximum recovery period will be aligned to the contract length, capped at the maximum recovery period of 22 years, or as otherwise agreed with the ceding local authority
- For transferee admission bodies, where closed to new entrants, the maximum recovery period will be aligned to the future working lifetime of its membership, if less than the contract length, capped at the maximum recovery period of 22 years, or as otherwise agreed with the ceding local authority.
- For community admission bodies, where closed to new entrants, the maximum recovery period will be aligned to the future working lifetime of its membership, capped at the maximum recovery period of 22 years, or such other period agreed by the employer and approved by the administering authority.

Funding Strategy Statement 2014

- Employer contributions will be expressed and certified as two separate elements:
 - a percentage of pensionable payroll in respect of future accrual of benefits
 - a schedule of fixed £s amounts, increasing annually in line with the valuation funding assumption for long-term pay growth (unless otherwise noted), in respect of deficit recovery subject to review from April 2017 based on the results of the 2016 actuarial valuation.
 - Where increases in employer contributions are required from 1 April 2014, the increase from the contributions payable in the year 2013/14 may be implemented in steps, typically over a period of up to three years.
 - Where an employer has a guarantee from a statutory body participating in the Fund, or from another organisation approved for that purpose by the administering authority, the administering authority will recognise the requirement for the guarantor to be kept abreast of the funding position of the relevant employer, unless the employer indicates otherwise in writing.
 - On the cessation of an employer's participation in the scheme, the actuary will be asked to make a termination assessment. Any deficit in the scheme in respect of the employer will be due to the scheme as a termination contribution, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the scheme to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate guidance published by the Fund.
 - Any employing body with a surplus of assets over liabilities may have the surplus applied over a period that assists the process of smoothing or avoiding increases in contributions over a valuation cycle.
 - The Fund's approach will reflect the ability of employing bodies to meet their pension liabilities and resources available to them when their circumstances have changed suddenly.
 - Any employing bodies who have an improved funding position, may at some point, be presented with the option to de-risk via a lower risk investment strategy.
 - In determining a contribution rate, a prudent approach will be taken to balancing any potential reductions in contributions with the strength of the employing body covenant risk.

Consequently, the administering authority may, at its discretion, levy contributions for a particular employer that are below, or above, those initially certified by the actuary, where it is deemed appropriate to assist with smoothing or control of contribution rates.
 - Where the administering authority does levy an alternative contribution plan for a particular employer, as described above, this will represent an employer-specific funding plan, and will be agreed and documented separately.
 - Academies will be treated in accordance with the factors and legislation that lead to their creation. All will be considered to have the same covenant strength as any scheduled body, and their contribution rates will be calculated to meet the broad intentions of ensuring they are in a similar financial position in respect of pension liabilities pre- and post-transfer to academy status at inception. The policy applied to academies will be reviewed from time to time or if any further guidance emerges.
- 6.9** In determining the above objectives, the administering authority has had regard to:
- the responses made to the consultation with employers on the FSS principles;
 - relevant guidance issued by the CIPFA Pensions Panel;
 - the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose; and
 - the administering authority's views on the strength of the participating employers' covenants in achieving the objective.
- 6.10** There will be an overall reserve, established as a contingency to protect the Fund against funding shortfalls, where employers without a guarantor cease participation in the Fund and cannot pay to remove any deficit. The reserve is based upon a review of those employers without a guarantor and the associated liability exposure and the contributions required to establish this reserve have been built into rates assessed for all employers within the Fund at this valuation. This reserve is subject to review at subsequent actuarial valuations.
- The Normal Cost of the Scheme (Future Service Contribution Rate)**
- 6.11** In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the 'normal cost'). The method and assumptions for assessing these contributions are also set out in the Appendix.
- 7. Links to Investment Policy Set Out in the Statement of Investment Principles (SIP)**
- 7.1** The Fund has, for many years regularly used an asset liability study or some other form of stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in the Fund's SIP. The Fund's updated investment strategy has been supporting part of the consultation on the valuation and the FSS. A revised SIP has been produced to reflect the FSS and investment strategy.
- 8. The Identification of Risks and Countermeasures**
- 8.1** Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies those key risks specific to the Fund and the measures being taken or assumptions made to counter those risks.

Funding Strategy Statement 2014

8.2 Some of the key risks taken into account and responses are:

Financial

- Unexpected market-driven events.
- Investment markets fail to perform in line with expectations.
- Market yields move at variance with assumptions.
- Investment fund managers fail to achieve performance targets over the longer term.
- Asset allocations in volatile markets may lock in past losses.
- Pay and price inflation significantly more or less than anticipated.
- The effect of a possible increase in employer's contribution rate on service delivery and employers in general. The Fund has undertaken a regular review of its investment strategy taking into account investment risk and future benefit payments to determine a bespoke investment strategy that for a variety of future economic outcomes gives a high degree of certainty that the investment objectives will be achieved. The Fund has moved to a yearly review from 2011. Short-term investment management decisions to reflect anticipated market changes are strictly controlled against the investment strategy or benchmark.

Investment management briefs reflect the importance of capturing at least a market rate of return and minimising the risk of significantly underperforming an investment market. Further information is available in the SIP and on the Fund's website.

Demographic

- The longevity horizon of beneficiaries continues to expand.
- **Cost of early retirements**
The Fund has in place policies and procedures to identify for employing bodies the impact of these factors and agrees how they will be managed in terms of special additional contributions.
- **Take-up of 50:50 option**
The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.
- **Insurance of certain benefits**
The Fund is still exploring insurance cover for some of the death in service and ill-health costs, with further detailed analysis to follow. The potential for the implementation of such insurance will be determined by the Fund, bearing in mind the associated risk mitigation and employer desirability across the Fund as a whole. The contributions for any employer may be varied as agreed by the actuary and administering authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Changes to regulations, eg, more favourable benefits package, potential new entrants to scheme, changes to the benefit structure etc.
- Changes to national pension requirements and/or Inland Revenue rules. These changes agreed and proposed are evaluated and taken into account in the actuarial valuation and closely monitored between valuations in case any action is required.

Governance

- Administering authority unaware of structural changes in an employer's membership (eg, large fall in employee members, large number of retirements).
- Administering authority not advised of an employer closing to new entrants.
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

The Fund has established inter-valuation monitoring and working relations with its employers to ensure changes are detected, discussed, evaluated and appropriate action agreed. This includes regular reviews of funding levels, bond arrangements where appropriate and the assessment of the financial standing of employers that are not tax-raising bodies.

Employers

- Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy. The Fund's approach to the outcome of the valuation has had regard to balancing the needs of funding the liabilities and the cost to employers. This is reflected in the approach to the phasing of increase, the recovery period for meeting any funding gap, together with the risks associated with the investment strategy. It is considered the approach adopted represents an 'affordable' solution taking all factors into account.

A risk assessment of the sustainability of all employers has been undertaken seeking to establish the risk of an employer failing to meet their pension liabilities. The analysis has looked at the following levels of risk.

In determining the actual recovery period to apply for any particular employer to employer grouping, the administering authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the employer; and the security of future income streams;
- any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

Funding Strategy Statement 2014

Low risk

Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS.

This category would cover:

- a local authority, or equivalent.
- a body for which the Fund has a guarantee of liabilities from a local authority (or its equivalent).
- a body which receives funding from local or central government (eg. colleges and universities).
- a body which has a funding deficiency guarantee from local or central government.
- a best value-type body for which a local authority within the Fund effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 38.

Medium risk

Scheduled bodies not considered as low risk and admitted bodies with no statutory underpin but:

- can provide satisfactory evidence of financial security (eg. parent company guarantee, bond, indemnity, insurance).
- is part of a group of related or pooled bodies which share funding on default.

High risk

An admitted body:

- with no external funding guarantee or reserves.
- with a known limited lifespan or fixed contract term of admission to the Fund.
- which has no active contributors and/or is closed to new joiners.
- which relies on voluntary or charitable sources of income.

This analysis indicates the risk to the Fund's solvency and ability to meet prior liabilities to be low. It will, however, continue to be monitored. A number of small bodies have significant financial challenges due to falling revenues. The Fund will work with these bodies to ensure all interests are considered and an acceptable funding strategy for the pension liabilities is achieved that does not put the Fund's position at an increased risk. In respect of bodies that have fixed-term funding, the aim is that a fully funded position should be achieved with a high degree of certainty by the end of the funding period.

Appendix

Actuarial Valuation as at 31 March 2013

Method and Assumptions Used in Calculating the Funding Target Method

The actuarial method to be used in the calculation of the funding target is the 'projected unit' method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the 'attained age' method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial Assumptions

• Investment return (discount rate)

A yield based on market returns on UK government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the scheme's accrued liabilities, plus an asset outperformance assumption (AOA) of 1.4%. The AOA represent the allowance made, in calculating the funding target, for the long-term additional investment performance on the assets of the Fund relative to the yields available on long-dated gilt stocks as at the valuation date.

• Inflation (consumer prices index - CPI)

The inflation assumption will be taken to be the investment market's expectation for CPI as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK government gilts as at the valuation date, reflecting the profile and duration of the scheme's accrued liabilities, less an adjustment. The adjustment is taken to be 1.0% pa and is in respect of two factors:

- the perceived premium investors are prepared to pay to protect against future inflation rises (known as an inflation risk premium).
- the expectation that CPI is expected to increase at a lower rate than the retail prices index (RPI). An adjustment is required in respect of this, as the indexlinked investments used to determine the market rate of inflation are indexed with reference to the RPI, and so determine a 'market view' of RPI.

• Salary increases

The assumption for long-term real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% pa over the inflation assumption as described above. This includes allowance for promotional increases.

To recognise the relatively low level of salary increases expected in local government in the near future, and as budgeted for in the short term by many employers, the Fund has applied an assumption of 1% pay growth over the next three years reverting to 4.35% (CPI plus 1.75%) thereafter.

For certain employers (typically with the strongest covenant and where evidence from an employer supports it), the Fund has applied an assumption of 1% pay growth over the next five years reverting to 4.35% (CPI plus 1.75%) thereafter.

Funding Strategy Statement 2014

● Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with CPI (eg, guaranteed minimum pensions in respect of service prior to April 1997).

● LGPS 2014 50:50 take-up

The assumed take-up of the 50:50 option, to be introduced with the LGPS 2014 scheme, has been set at 5% of the membership where justifiable by turnover of employers and size of employer. Full details of the assumptions adopted are set out in the actuary's formal valuation report.

Method and Assumptions Used in Calculating the Cost of Future Accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities. The financial assumptions in relation to future service (ie, the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (ie, return in excess of price inflation) of 3.0% pa with a long-term average assumption for price inflation of 2.6% pa. These two assumptions give rise to an overall discount rate of 5.6% pa.
- Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects therequirement in the regulations for stability in the 'common rate' of contributions. In market conditions at the effective date of the 2013 valuation, this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market-related basis used for the assessment of the funding target. At each valuation, the cost of the benefits accrued since the previous valuation will become a past service liability. At that time, any mismatch against gilt yields and the AOA used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the 'normal cost') for the 2013 actuarial valuation

Long-term gilt yields

Fixed interest	3.2% pa
Index-linked	(0.4)% pa
Implied RPI inflation	3.6% pa
Adjustment for inflation risk premium and CPI	(1.0)% pa
Implied CPI price inflation	2.6% pa

Past service funding target financial assumptions

Investment return/discount rate	4.6% pa
Salary increases	4.35% pa
Pension increases	2.6% pa

Future service accrual financial assumptions

Investment return/discount rate	5.6% pa
Salary increases	4.35% pa
Pension increases	2.6% pa

Principal demographic assumptions

Mortality assumptions	Table	Adjustment
Male normal health pensioners	S1PMA CMI 2012 M (1.5%)	99%
Female normal health pensioners	S1PFA CMI 2012 F (1.5%)	96%
Male ill-health pensioners	As for male normal health pensioners + 3 years (+4 for future ill-health pensioners)	
Female ill-health pensioners	As for female normal health pensioners + 3 years (+4 for future ill-health pensioners)	
Male dependants	S1PMA CMI 2012 M (1.5%)	160%
Female dependants	S1DFA CMI 2012 F (1.5%)	114%
Male future dependants	S1PMA CMI 2012 M (1.5%)	106%
Female future dependants	S1DFA CMI 2012 F (1.5%)	95%

Assumptions Used in Calculating Contributions Payable

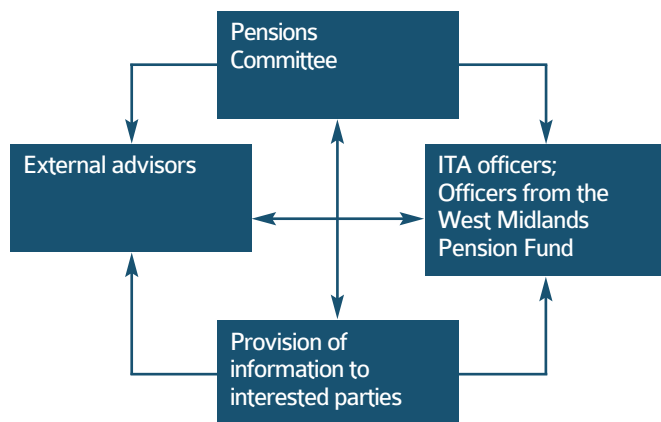
Under the Recovery Plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target.

Governance Compliance Statement 2013

Governance of the Fund

The Fund's governance arrangement has four elements:



Pensions Committee

The management of the administration of benefits and 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 administers the scheme in accordance with the regulations and best practice, and determines the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

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

To discharge the functions of the administering authority for the application of the Local Government Pension Scheme regulations in the West Midlands.

- 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.

The key duties in discharging this role are:

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

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 Metropolitan Authorities Pension Fund arising by virtue of the Local Government Pension Scheme Regulations 1997, 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.

Investment Sub-Committee

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 Committee meets at least four times a year and its key duties are:

- 1) To monitor and review investment management functions.
- 2) To review strategic investment opportunities.
- 3) To monitor and review portfolio structures.
- 4) To monitor implementation of investment policy.
- 5) 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.
- 6) To monitor investment activity and the performance of the Fund.
- 7) To oversee the administration and investment management functions of the Fund.

The Director of Pensions oversees the implementation of Committee policy and the management of the day-to-day operational functions through the pensions staff delivering Fund services. The Committee and its elected members are advised and supported by the Chief Executive, Director of Pensions and Senior Finance and Legal Officers from Wolverhampton City Council.

Trade Union Representations and Provision of Information to Interested Parties

The Fund invites relevant trade unions to send local representatives to a Joint Consultation Panel which meets at least three times per year to consider the activities of the Fund and elect four representatives to the Pensions Committee and two to the Investment Sub-Committee.

Governance Compliance Statement 2013

Although these representatives do not have voting rights they are treated as equal members of the committees, for example 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.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties. This is achieved through the Fund's communication strategy.

Advisors and Officers

Investments and pensions administration are complex areas and the Fund recognises the need for its Pensions Committee and Investment Advisory Sub-Committee to receive appropriate and timely advice. Against this background, its principal advisors are as follows:

- i) High level advice on general management from the Chief Executive of Wolverhampton City Council.
- iii) Legal and general administrative advice and management from the Senior Legal Officer of Wolverhampton City Council who is also the monitoring officer for the Council.
- iv) Financial and technical advice from the Director of Pensions who is the lead senior support officer and has direct responsibility for the in-house management, as well as implementing the investment strategy through a team of professionally qualified staff and external managers.
- v) Senior pensions staff responsible for pensions benefits administration and communications.
- vi) Senior Finance Officer of Wolverhampton City Council is the Section 151 officer of Wolverhampton City Council and that responsibility applies to the Fund. The Senior Finance Officer is also the investment management monitoring officer as set out in the Fund's *Investment Compliance Manual*.
- vii) A range of external specialist advisors are appointed, covering areas such as:
 - Investment policy, quarterly asset allocation and general investment matters.
 - Actuarial matters.
 - Selection of investment managers, policy and investment matters relative to liabilities.
 - Commercial and industrial property matters, day-to-day management of properties and transactions involving the sale and purchase of UK property.
 - Independent property advice.
 - Company governance issues.
 - Investment strategies and asset allocation.

Other specialist advisors are used as and when needed.

Details of the Fund's advisors are published in the Fund's *Annual Report*.

Role of Council Members

Wolverhampton City Council is responsible for administering and discharging the functions as administering authority for the West Midlands Pension Fund. In addition to discharging the administration of benefits, recording of contributions, etc, the Council is also responsible for the investment of the Fund monies. Because the Fund covers the majority of local government employees in the West Midlands, as well as many admitted bodies, representatives from all seven district councils serve on the Committee and the Investment Sub-Committee. There is also active representation on behalf of the employees and pensioners from trade union representatives. Investments are a special area for members to consider as it is different to normal Council business.

When considering the advice and determining investment policy, members are effectively acting as trustees and as such need to understand the special obligations placed upon trustees. These responsibilities are additional to those carried out as an elected member of a local authority. Members' duties as trustees are 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 they may have to make decisions that in other political circumstances they may choose not to make. The overriding consideration for them as trustees, however, has to be for the benefit of the Fund and its contributors and beneficiaries. The advice of the Fund's advisors is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibilities that go with them. They are not expected to be qualified to give investment advice or to initiate investment policy. They must be aware of what is proposed by their advisors and be sure that it is relevant to the needs of the Fund and within their powers.

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 advisors they employ. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings and regular written reports with professional advisors whose skills and judgements can be relied upon. So far as the Fund is concerned, the advice is provided mainly by Council officers and the advisers detailed in the *Annual Report*.

In addition to the setting of policy and investment parameters for the Fund, there should be a formal meeting each year at which the investment returns are reviewed. There might well be other formal meetings of trustees to which managers make a brief report, or supplement their written material. The following are extracts from leading court judgements made about the role of trustees. These extracts stress the independent fiduciary duty required of a trustee and the requirement to put the needs of the beneficiaries first at all times. These comments apply to all trustees, including members, involved in pensions work.

Governance Compliance Statement 2013

The Duty of Trustees

The duty of the trustees is to exercise their powers in the best interests of the present and future beneficiaries of the trust. Holding the scales impartially between different classes of beneficiaries is paramount. They must, of course, obey the law but subject to that they must put the interests of their beneficiaries first.

When the purpose of the trust is to provide financial benefits for the beneficiaries, the best interests of the beneficiaries are normally their best financial interests. In the case of a power of investment, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question and the prospect of the yield of income and capital appreciation, both have to be considered in judging the return from the investment.

Standard Required of a Trustee

The standard required of a trustee in exercising their powers of investment is that they must take such care as an ordinary prudent person would take if they were minded to make an investment for the benefit of other people for whom they 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 they are acting as an ordinary prudent person would act.

View of Secretary of State

The Secretary of State for the Environment has previously indicated that administering authorities should pay due regard to the principle contained in *Roberts v Hopwood* in exercising their duties and powers under the regulations governing the investment and management of funds. 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. ”

Members and Officers' Knowledge and Skills

Member and officer knowledge and skills is recognised as important and a range of measures are in place to equip members to undertake their role.

This is a major factor in the governance arrangements of the Fund in ensuring Committee members and officers have the relevant skills and knowledge. The Fund applies the *CIPFA Knowledge and Skills Framework* to achieve this objective.

Framework

Six areas of knowledge and skills have been identified as core technical requirements for those associated with LGPS pension funds:

- Pensions legislation and governance context
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices

It is not the intention that Committee members should individually become technical experts, but collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

Officers advising members and implementing decisions should have a more detailed knowledge appropriate to their duties.

Officers are expected to demonstrate their professional competency against the framework through appropriate 'continuing professional development' (CPD) arrangements'. The Fund has an approved *Trustee Training Policy* in place, and includes in its annual report and accounts details of the knowledge and skills development undertaken by its Committee members. It is being proposed that it will become a regulatory requirement for funds to explain their compliance with the CIPFA framework and in particular cover:

- how the framework has been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs

Representation of Other Interested Parties

The Fund is open to any organisation with a direct interest attending the regular committee meetings to observe proceedings, and the Fund will engage with employing bodies on significant issues affecting them so their views can be taken into account before a decision is made, eg, three-yearly actuarial valuations.

The Fund will provide information on its website and directly to employing bodies on issues in which they may have an interest.

The Joint Consultative Panel is seen as the main area of involvement of active, deferred and pensioner members. The Fund does engage directly with individual members providing relevant and interesting information, the content determined by the responses to the information provided and requested.

Governance Compliance Statement 2013

Origins of the Fund and Responsibilities

Following the 1974 reorganisation, all Council employees in the area (excluding teachers, police and fire officers) were members of the West Midlands Superannuation Fund with the former county council as administering authority. The 1986 reorganisation led to Wolverhampton Council becoming the administering authority for the Fund and local government employee pensions other than teachers, police and fire officers in the West Midlands. Responsibility for discharging the administering authority role is delegated to the Pensions Committee which has representatives from the district councils as the largest employers and four trade union representatives nominated from the Joint Consultative Panel of trade union representatives from the region.

The changes in responsibility for the delivery of Council services have seen a growing number of private sector firms and voluntary organisations becoming members of the Fund in respect of the workforce that delivers public services.

The LGPS regulations set out the responsibilities of the key parties which are summarised below. Further details are available on the Fund's website where operational and management arrangements are set out. The administering authority (Wolverhampton City Council):

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains an *FSS (Funding Strategy Statement)* and an *SIP (Statement of Investment Principles)*, both after consultation with interested parties.
- Monitors all aspects of the Fund's activities and funding.

The administering authority discharges its responsibilities with the active involvement from the major employers, the district councils and trade union representatives combined with consultation with other interested parties.

The individual employers:

- Deduct contributions from employees' pay.
- Pay all contributions as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, early retirement funding strain.
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

The Fund's actuary:

- Prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Sets employers' contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining contribution rates that are as constant as possible.

Compliance and Best Practice

The Fund is required to publish a compliance statement under Regulation 73A of the Local Government Pension Scheme regulations and review that statement on an ongoing basis under Regulation 31 of the 2008 Regulations. There is also a requirement to declare their compliance in meeting the guidance given by Secretary of State.

The Fund aims to comply fully with the guidance given by the Secretary of State and relevant guides produced by CIPFA.

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.

Communications Policy Statement 2014

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.

Communications Policy Statement 2014

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.

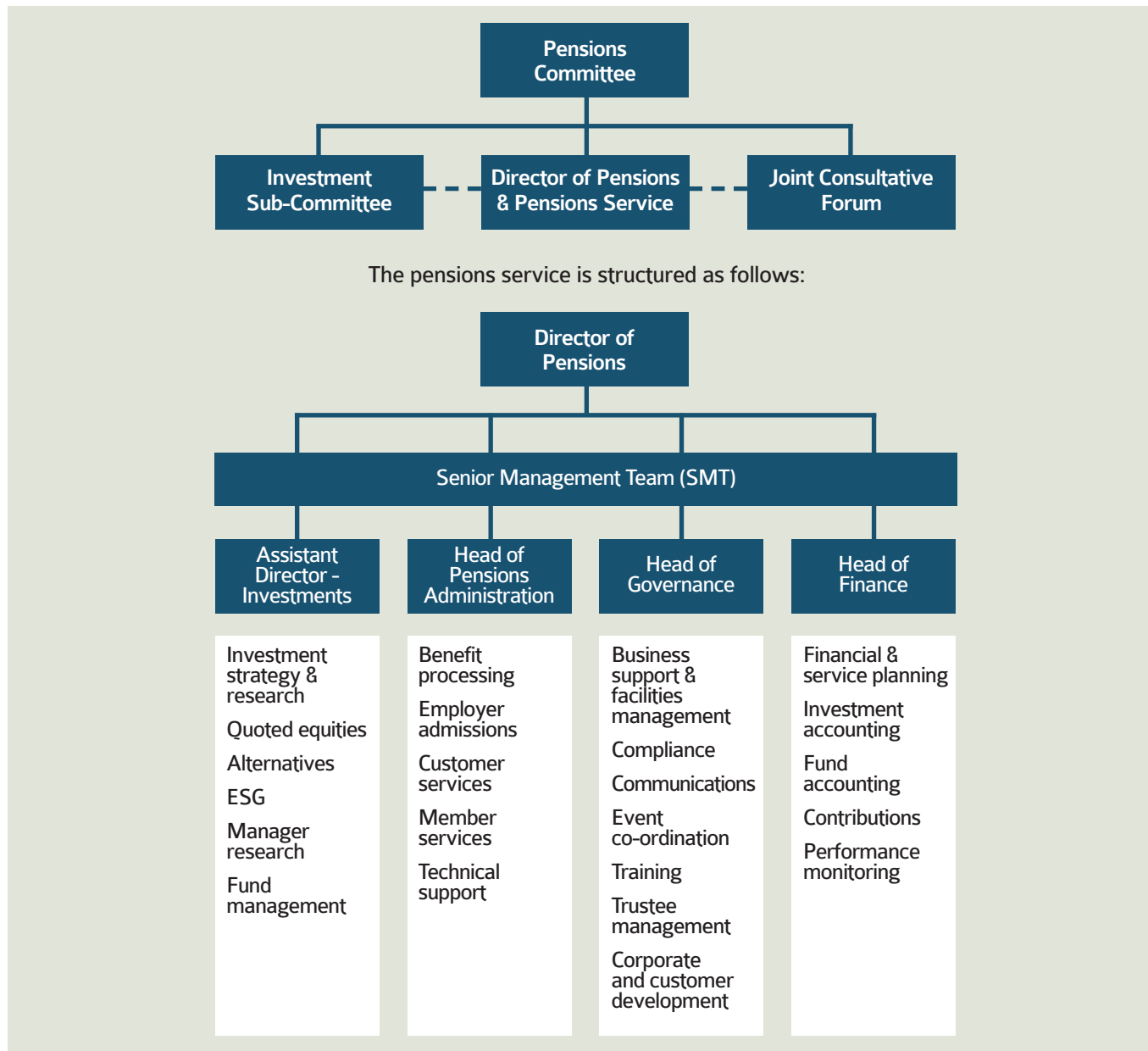
Employers' Manual

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.

Communications Policy Statement 2014

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:



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:

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

v) 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 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.

Communications Policy Statement 2014

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.

Communications Policy Statement 2014

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 form	Non-personalised	✓ form	Non-personalised	✓	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

Administering Authority Policy Statement 2014

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 ten 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 the authority 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.

Administering Authority Policy Statement 2014

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 ongoing employment which ongoing 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.

Administering Authority Policy Statement 2014

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 at 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 at 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 at 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.

Administering Authority Policy Statement 2014

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 Benefits Statement are Calculated [R89]

The administering authority will decide the date to which benefits shown on the annual benefits 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.

Administering Authority Policy Statement 2014

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 [RSch1 & 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 cohabitation.

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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Independent auditors’ statement to the Members of the West Midlands Pension Fund (the “Authority”) on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of Wolverhampton City Council for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by West Midlands Pension Fund, comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include [a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the Responsible Financial Officer

As explained more fully in the Statement of Responsibilities set out on page x of the audited Statement of Accounts the Responsible Financial Officer is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of Wolverhampton City Council. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consists of: The Chair’s and Directors’ Statements, the Statutory Information, the Management Reports, the Statistical Information and Risk Management and the Appendices.

This report, including the opinions, has been prepared for and only for the Authority’s members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, 30 September 2014, and the date of this statement.

Richard F Bacon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
30 September 2014

- (a) The maintenance and integrity of the Wolverhampton City Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

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West Midlands Pension Fund

Report to those charged with governance

Report to the Pension Committee and those charged with governance of the West Midlands Pension Fund on the audit for the year ended 31 March 2014 (*ISA (UK&I) 260*)

Government and
Public Sector
14 September 2014
Page 167

Contents

<i>Executive summary</i>	2
<i>Audit approach</i>	3
<i>Significant audit and accounting matters</i>	7
<i>Internal controls and other observations</i>	10
<i>Risk of fraud</i>	13

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in March 2014; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

- We have completed the majority of our audit work. We will be issuing an opinion that the figures contained in the stand-alone pension scheme accounts are consistent with those included in the council's accounts. The true and fair opinion is included in the council's accounts.
- The key outstanding matters, where our work is not yet finalised, are:
 - completion of our work in the area of investments, primarily documentation surrounding the private equity investments and pooled investment vehicles as well as receipt of a number of independent investment confirmations
 - performance of a subsequent events review to the date of approval of the accounts; and
 - approval of the Statement of Accounts and letter of representation.

We will provide an update on all outstanding matters on 24 September 2014.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 24 September 2014. Attending the meeting from PwC will be Richard Bacon and David Robson.

Audit approach

Our audit approach was set in our audit plan which we presented to you in March 2014.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Work performed
<p>Management override of controls</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant</p>	<p>We performed procedures to:</p> <ul style="list-style-type: none"> • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • test the appropriateness of journal entries; • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform ‘unpredictable’ procedures. <p>We performed other audit procedures as necessary.</p>
<p>Valuation of hard to value investments</p> <p>West Midlands Pension Fund holds a mixture of categories of investment within the Pension fund portfolio. For a proportion of these assets a readily available market price is not always available.</p>	<p>Elevated</p>	<p>We reviewed the monitoring procedures in place over these categories of investments with management.</p> <p>We confirmed the valuation of hard-to-value investments at year end with the individual investment managers and assessed the accuracy of the year end valuation by reviewing the latest audited accounts to information provided to management to assess the reasonableness of these unit prices.</p> <p>We reviewed the latest investment manager controls reports where available, to update our understanding of controls and procedures in place over valuation of such assets.</p>

We have summarised below the other risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Focus area/risk	Work performed
<u>Investment assets and returns</u>	
Investments may not exist or the scheme may not have title to investment assets	<ul style="list-style-type: none"> • We understood the Committee and management monitoring controls, including reviewing Committee meeting minutes. • We obtained independent confirmations of all externally managed investments assets from the investment managers. In the case of those investment assets managed by the in house team, we obtained confirmation from the custodian. • We reviewed internal controls reports on investment management and custody.
Investments may be incorrectly valued	<ul style="list-style-type: none"> • We tested the valuation of quoted investments against third party sources. • We understood how the Committee and management validate asset values provided by investment managers for investments which are not quoted. • We reviewed valuations for pooled investment vehicles and private equity investments, including reviewing the most recent audited accounts for the funds and any available internal controls reports.
Investments may be recorded incompletely in the financial accounting records and the accounts	<ul style="list-style-type: none"> • We reviewed the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments. • We reviewed the reconciliations performed in-house between investment manager and custodian assets.
Performance of investments reported may be inconsistent with the accounts	<ul style="list-style-type: none"> • We completed an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices.
Allocation of investments may not be in accordance with the Statement of Investment Principles ('SIP')	<ul style="list-style-type: none"> • We reviewed the allocation of investments compared with the requirements of the SIP.

Contributions

Payment of employer contributions may not be in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) (“the schedules”)

- We reviewed the controls over payroll and validated on a sample basis that these are operating as expected.
- We undertook analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions.
- We considered the monthly contributions received and investigated any unusual fluctuations.
- We tested on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules.
- We reviewed the timing of the payment of contributions according to bank details compared with the requirements of the schedules.

Benefits and membership

Benefits may not be correctly calculated according to the local government regulations

- We reviewed the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected.
- We undertook analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase.
- We considered the monthly total pensions paid and investigated any unusual fluctuations.
- We performed substantive testing on a sample basis over material types of benefit payments.

Membership statistics accurately reflect the membership of the scheme

- We reviewed the results of any pensioner existence checking exercise completed during the year.
- We compared membership statistics and movements reported against the supporting data from the administration system and reviewed for reasonableness compared with our expectations.

Other areas

Current assets and liabilities may not be appropriately accounted for

- We reviewed balances compared with the prior year and against our expectations from testing of income and expenditure.
- We obtained independent confirmation of cash balances.
- We reviewed controls over cash movements and bank account authority levels.

Related party transactions may be incomplete or

- We understood the controls that the Committee and management have over the identification of related parties and transactions with

inaccurately reflected in the accounts

- them.
- We made specific enquiries for any transactions which look to be outside of the normal course of business.
-

Materiality

In our audit plan presented to you in March 2014, we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality has remained the same during the year.

ISA (UK&I) 450 (revised) require that we record all misstatements identified except those which are 'clearly trivial', i.e. those which we do not expect to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold when the audit plan was presented in March 2014.

Significant audit and accounting matters

Auditing standards require us to tell you about relevant matters related to the audit of the financial statements sufficiently promptly for you to take appropriate action. This section contains such items.

Accounts

We have completed our audit, subject to the following outstanding matters:

- completion of our audit work in the area of investments review of the detailed disclosures in the Statement of Accounts;
- approval of the Statement of Accounts and letters of representation;
- receipt of outstanding bank and investment confirmations; and
- completion procedures including subsequent events review.

Accounting issues

We have no significant accounting issues to bring to your attention.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. See Appendix 1.

We also bring to your attention the following misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements

Disagreements with management

There were no disagreements with management, individually or in aggregate, which could be significant to the entity's Statement of Accounts or our audit report.

Management representations

We will be asking management to provide us with a signed representation letter to confirm information and statements they have given to us during the course of our audit.

Financial standing

There are no material uncertainties related to events and conditions that may cast significant doubt on the scheme's financial standing.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We have not identified any issues in performing our related party work which needs to be brought to your attention.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear

West Midlands Pension Fund

on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Pensions Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

Apart from the audit of the Statement of Accounts, PwC has undertaken no other work for the Group.

Fees

We reported our fee proposals in our plan. Our actual fees were in line with our proposals.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

confirm that they agree with our conclusion on our independence and objectivity.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's/ the pension scheme's senior management or staff.

Other matters

We are not aware of any other matters which may impact on our independence and objectivity e.g. litigation.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee/those charged with governance to consider the matters in this document and to

West Midlands Pension Fund

Internal controls and other observations

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit. We noted the following points which we should like to discuss further with you

Summary of significant internal control deficiencies

Deficiency	Recommendation	Management's response
<p>Late contribution payments We noted that during the year there were a number of instances where contributions were received late by the Fund. We note that the situation was similar last year and a schedule is maintained to log these late payments.</p> <p>We were not able to view evidence of how frequently contact was made to actively chase these and what actions were taken to aim to reduce these instances. Reasons for late payments were also not recorded on the schedule.</p>	<p>We recommend that management consider the controls in this area and any improvements required to reduce the instances of late contributions. We do note the following however:</p> <ul style="list-style-type: none"> • The quantum of late contributions is small when compared with the total value of contributions; • We will not be required to report these late contributions to the Pensions Regulator; • Given that there is no statement about contributions in the annual report, considerations as to qualification of the opinion given in this statement do not arise. 	<p>WMPF Finance concurs with the recommendation and will implement an effective process to ensure that all employers who make late payments are followed up. Use of legislative powers to implement penalties will be considered where appropriate.</p> <p>Action plan implementation date - 30 September 2014</p>

Deficiency	Recommendation	Management's response
<p>Contributions monitoring spreadsheet We noted that the local management team uses a spreadsheet to monitor the timing of receipt of contributions from its participating employers, but that the spreadsheet is not kept up to date. Due to staff changes and preparations for the implementation of the new financial system, delays were experienced in maintaining the control sheet in the final two months of 2013/14. In order for this tool to be of use, it needs to be properly maintained.</p>	<p>We recommend that the contributions monitoring spreadsheet be updated on a regular basis. It would be ideal if a link could be created between the spreadsheet and the cash receipts element of the client's systems.</p>	<p>The implementation of the new financial system created delays in maintaining the control sheet. The 2014/15 record is up to date for the first quarter of the new financial year. The record will be maintained on a daily basis and arrangements are being introduced to link this with the general ledger.</p> <p>Action plan implementation date – 30 September 2014</p>
<p>Bank reconciliation During our re-performance of the bank reconciliation, we noted a number of very significant and out-of-date reconciling items. The net of these old items is represented by genuine outstanding lodgements and unpresented cheques but the way these old items are presented makes the reconciliation meaningless.</p>	<p>We recommend that management ensure that the old items are examined and deleted from the bank reconciliation such that only the true outstanding lodgements and unpresented cheques are presented in the reconciliation. In that way, the reconciliation will be a much clearer monthly control than it currently is.</p>	<p>WMPG Finance concurs with the recommendation and will implement an effective reconciliation process.</p> <p>Action plan implementation date - 30 October 2014</p>

We also recommend the following are for consideration by the local management team in the coming months:

- Put in place a register of related parties and related party transactions. We recommend that the implementation of this related party register take place initially at the half-year to ensure that it is fit for purpose. It should be sent to all relevant parties within the organisation for completion - for example, the Trustees, the Investments team, the Administration team, the Finance team, the Payroll department. The register should include the following details:
 - The nature of the related party transaction
 - The parties involved in the transaction
 - The date of the transaction
 - The quantum of the transaction and the value of any remaining account balances as at the statutory accounts year-end
 - Any unusual terms to the transaction
 - The register can simply be in the form of a spreadsheet.
- Review the number of account codes in place to determine whether these can be streamlined. In performing our work, we noted a number of controls accounts and other accounts which potentially can be streamlined to make the financial recording more transparent. This should be combined with a review of codes which continue to hold 'old' account balances.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in March 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?

- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.



In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. You agree to pay due regard to any representations which PwC may make in connection with such disclosure and you shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, you disclose this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for you and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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Pensions Committee

24 September 2014

Report title	SIAB Annual Review	
Originating service	Pension Services	
Accountable employee(s)	Mark Chaloner	Assistant Director – Investments
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Report to be/has been considered by	Geik Drever	Director of Pensions
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Recommendation(s) for action or decision:

The Committee is recommended to approve the following changes in the SIAB asset allocation with effect from 1 October 2014 –

1. An increase in the allocation to property to 10% of assets (from 9%), with a 7% allocation to direct property (up from 6%) and a 3% allocation to indirect property.
2. The creation of an allocation to real assets and infrastructure, with a target allocation of 6% (compared with the current 4% allocation to infrastructure) and for the allocation to agriculture funds (0.2% and currently in the commodities portfolio) to be transferred to this segment.
3. The elimination of the allocation to hedge funds (3%).
4. In the stabilising segment of the fixed interest portfolio, for an increase in the allocation to index linked gilts to be increased to 6% (from 5%) and for a corresponding decrease in the allocation to conventional gilts (to 3% from 4%).

The Committee is also invited to endorse the asset transfer arrangements for the Ministry of Justice (MoJ) Probation Trust pensions, for which Greater Manchester Pension Fund is assuming responsibility. It is estimated that the Fund will transfer £235 million of assets in the final quarter of 2014, with funding from cash resources (£175 million) and the balance from the transfer of the Fund's holding in a short dated UK gilt fund (£60 million).

Recommendations for noting:

The Committee is asked to note Hymans Robertson's SIAB annual review. It is planned that a statement of investment beliefs will be presented to the Committee's next meeting.

1.0 Purpose

- 1.1 To review the Fund's investment strategy and recommend changes to the Strategic Investment Allocation Benchmark (SIAB).

2.0 Background

- 2.1 At its meeting in June 2014, the Investment Advisory Sub-Committee received an investment strategy review, the key finding of which was that the current investment strategy, with a 90% allocation to 'growth assets' and a 10% allocation to 'stabilising assets' remained appropriate for the Fund.
- 2.2 The SIAB annual review looks at the Fund's asset allocation in greater detail and makes specific recommendations for the Committee's consideration. Hymans Robertson will make a presentation to the Committee and attached to this paper is a note setting out their views.

3.0 General considerations regarding the Fund

- 3.1 The Fund has a well diversified portfolio with exposure to a wide range of asset classes and managers. However, exposure to equities (58% in total including private equity) remains very substantial and equity related risks continue to dominate, as highlighted in Hymans Robertson's report.
- 3.2 Governance is important. The Fund continues to have a very large number of mandates and it is suggested that the process of simplifying the portfolio's management arrangements continues. The number of mandates should be further reduced and it is suggested that this can be done without affecting the Fund's favourable diversification characteristics. There are several advantages to having simpler management arrangements –
- Tighter monitoring and oversight of portfolios
 - Facilitating the setting of portfolio objectives and portfolio construction (creating portfolios with more clearly defined characteristics)
 - Facilitating asset allocation changes in the future – these will be needed as the Fund's liability profile changes
 - Making the process of setting up and managing employer specific investment strategies more straight forward
- 3.3 The Fund has substantial exposure to illiquid assets (30% accessible after three months or longer). This makes sense for long term investors so that they can take advantage of the full investment opportunity set and also exploit the relative inefficiencies of illiquid markets as well as the attractive returns available from them. Because the Fund remains relatively immature and continues to generate cash (from income and net contributions) it is suggested that the Fund continues to have a material exposure to illiquid assets but that the proportion invested in this area should not rise above 40% and that this limit is reviewed annually.

- 3.4 It is important also to look at the prevailing market environment. Major liquid asset classes in developed markets – listed equities and fixed interest – have performed very strongly over the past five years (most developed country stock markets have nearly doubled since March 2009). This reflects the policy decisions taken by the authorities in the wake of the credit crunch (which led to huge injections of liquidity into markets) as well as economic recovery and far greater confidence in the outlook. We agree with Hymans Robertson's assessment that valuations in most liquid developed markets look full and that from current levels, prospective returns are likely to be low compared with the experience since March 2009.
- 3.5 Other asset classes, including illiquid areas like property and fixed interest, offer some value in specific areas but in general are not obviously undervalued in the way that they were in the wake of the credit crunch. It is against this background that changes in the SIAB are proposed and the next section will cover the key asset classes in turn.
- 3.6 Finally, it is important that the Committee has conviction in the investment philosophy adopted by the Fund and in that regard, it is suggested that a statement of investment beliefs is adopted. It is proposed that this will be considered in the first instance at the trustee training session planned for October in Edinburgh and then presented to the Committee at its next meeting.

4.0 Review of asset classes and proposed SIAB changes

- 4.1 **Listed equities.** This year's detailed SIAB review by Hymans Robertson covers listed equities and will be presented to the Investment Advisory Sub-Committee on 24 September. At this stage, it is suggested that the overall allocation to listed equities (48%) is not changed but within the overall structure, there will be a higher allocation to global equities and less in UK equities. Further simplification of the mandate structure will be proposed with detailed proposals planned for the Pensions Committee's next meeting (which takes place in December 2014).
- 4.2 **Private equity.** The amount invested in this area (12%) is well above the target allocation at 10%. With the maturing of the existing portfolio and assuming a favourable market environment, net distributions should lead to a reduction in exposure to target by the end of 2016. In the meantime, new contributions will be made very selectively (with a ceiling of £150 million in the current year).
- 4.3 **Fixed interest.** In the stabilising segment of this portfolio (10%), it is suggested that the SIAB allocation to index linked gilts is increased to 6% (from 5%) and that the allocation to conventional gilts is lowered to 3% (from 4%), reflecting our view that at this stage we should be more concerned about protecting the portfolio from future inflation. This change would bring the actual allocations more closely into line with the SIAB. Proposals for the simplification of the return seeking segment of the fixed interest portfolio will be presented to the Committee. In the meantime, no changes in allocations to or within this area are proposed.

- 4.4 **Alternative investments.** Although property markets have recovered since the credit crunch, there remains some value in this area and it is suggested that the allocation to property is increased to 10% (from 9%) with a 7% target allocation to direct property (from 6%) and 3% to indirect property (unchanged). CBRE has been reappointed to manage the Fund's direct property holdings and will be given latitude to increase exposure in the coming year.
- 4.5 With the elimination of the Fund's exposure to commodities funds, it is suggested that a new investment segment is created, to be called 'real assets and infrastructure.' This will combine the Fund's allocation to infrastructure (for which there is a target allocation of 4%) and other real assets, which at present are represented solely by two agriculture funds (accounting for 0.2% of assets). It is proposed that the allocation to this segment is set at 6% but fully recognised that patience is needed to identify and access top quality opportunities in this area on suitably attractive terms, so achieving this level of exposure will take time (current exposure is 3.3%).
- 4.6 It is also proposed that the allocation to hedge funds, currently 3%, is eliminated. The Fund's current exposure, accounting for 2.1%, has to date delivered mediocre returns net of (very high) fees and it is open to question whether they will have a useful role to play in the portfolio in the future. Hedge funds are also a complex area to monitor and from a governance perspective, tie up substantially more resources than their weight in the portfolio warrants. Other changes planned for the portfolio will be designed to reduce portfolio volatility, removing the need to invest in this area. It is planned that (as with commodities), there will be a phased exit from hedge funds and that the Fund's exposure will be eliminated by the end of 2015 (one fund has a lock up period which comes to an end then).

5.0 MoJ Probation Trust pensions asset transfer

- 5.1 Greater Manchester Pension Fund (GMPF) is assuming responsibility for the MoJ Probation Trust pension fund arrangements and as part of the transition, other LGPS funds, including WMPF, will transfer their share of the relevant assets in the final quarter of 2014. It is estimated, subject to final confirmation from the actuaries, that WMPF will transfer £235 million then. It has been agreed that the transfer will be funded from cash resources (£175 million) with the balance (£60 million) from the transfer of the Fund's holding in the passively managed short dated UK gilts fund managed by Legal & General. The Committee is invited to endorse the funding arrangements for the forthcoming transfer, which will be made on a phased basis in October and November 2014.

6.0 Financial implications

- 6.1 This report contains no direct financial implications.

7.0 Legal implications

- 7.1 This report contains no direct legal implications.

8.0 Equalities implications

8.1 This report contains no direct equalities implications.

9.0 Environmental implications

9.1 This report contains no direct environmental implications.

10.0 Human resources implications

10.1 This report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 This report contains no direct corporate landlord implications.

12.0 Schedule of background papers

12.1 There were no preceding background papers.

13.0 Appendices

13.1 Appendix 1: SIAB annual review, September 2014

WEST MIDLANDS PENSION FUND

SIAB ANNUAL REVIEW
September 2014

Graeme Johnston
Partner

William Marshall
Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

Contents

	PAGE
Annual Review of SIAB	
1 Executive summary	1
2 Background	2
3 General recommendations	3
4 Asset classes	7
5 Summary	9
Appendix 1 – Fund holdings as at 31 March 2014	10

Addressee

This paper is addressed to the Pensions Committee (“the Committee”) of the West Midlands Pension Fund (“the Fund”). It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report should only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

1 Executive summary

Introduction

The Fund's Strategic Investment Allocation Benchmark ("SIAB") is reviewed on an annual basis, with a more detailed review of the suitability of the investment strategy in the context of the Fund's long-term funding objectives taking place on a triennial basis following the Fund's valuation. That investment strategy review was carried out earlier this year and the results were presented to the Committee in June. In broad terms, the investment strategy review concentrated on the appropriate level of split between two types of assets, which we categorise as "stabilising" and "return-seeking". This annual review is concerned with the structure of the stabilising and return-seeking portfolios in terms of the asset classes selected and the way in which they are managed.

Summary

The investment strategy review indicated that the Fund's high-level strategy was appropriate to meet the Fund's funding objectives in current circumstances. The SIAB sets out the structure chosen to implement that strategy and is well diversified across a range of asset classes. Equity risk still dominates and the Fund should continue to seek out suitable opportunities to reduce equity exposure and diversify into other areas that currently contribute relatively small amounts of risk. However, following a period of strong performance from most asset classes, we think there are few cheap opportunities currently available.

The Fund remains over-diversified in terms of the number of mandates. Our last review suggested that consolidation was likely to take a period of years. We recognise that progress has already been made in streamlining the portfolio and in putting in controls to make the management and oversight of portfolios more efficient. However, we believe that this should remain a key priority for the Fund.

We believe that control of the investment management of any fund benefits from clarity about the aims of investment in each asset type and in the selection of individual mandates. For the Fund, much of this is the responsibility of the in-house management team. We suggest that this should be supplemented by the Committee's formally setting out its investment beliefs. This will provide a high-level framework for the Committee's oversight of the Fund and act as a guide for the in-house team in its management of existing assets and analysis of new opportunities.

We set out some detailed recommendations about the structure of individual asset class portfolios. Whether these or others are agreed, we believe it is important that actions are prioritised and timetabled in a business plan. This should not be set in stone; priorities can change and any business plan should reflect this. It should be driven by a sensible assessment of available resources rather than attempt to achieve all identified actions by a random target date. However, a flexibly managed and realistic business plan, set up and maintained by the in-house team, would provide the Committee with a valuable summary of the work done and planned on its behalf.

2 Background

SIAB Review

The Fund's Strategic Investment Allocation Benchmark is reviewed on an annual basis, with a more detailed review of its suitability in the context of the Fund's long-term funding objectives taking place on a triennial basis following the Fund's valuation. That latter review was carried out earlier this year and the results were summarised in a paper, *Main Fund: 2014 investment strategy review*, which was presented to the Committee on 25 June 2014. The investment strategy review confirmed that the high-level investment strategy was currently appropriate for the Fund's funding objective in current circumstances, but noted that the strategic framework could be developed both to allow for changes in funding position and to introduce alternative strategies to accommodate the requirements of different employers. **We recommend that this strategic areas is explored further prior to the Fund's 2016 valuation.**

Aims of the annual review

The main aims of this annual review are

- to analyse the sources of risk in the portfolio; and
- to suggest potential opportunities to improve the SIAB or its implementation.

Current SIAB

The SIAB as at 30 June 2014 is set out in table 1 below. More detail on the mandates underlying these exposures is included as an Appendix.

Table 1: SIAB and Fund allocation as at 30 June 2014

	SIAB %	Fund %		SIAB %	Fund %		SIAB %	Fund %
Equities	58.0	57.1	Fixed Interest	19.0	22.5	Alternatives	23.0	20.4
			<i>Stabilising</i>					
UK	10.0	9.7	Index Linked Gilts	10.0	6.2	Direct Property	6.0	6.1
Continental Europe	6.0	6.4	Conventional Gilts		1.8	Indirect Property	3.0	2.7
North America	9.0	9.5	Liquid Assets		4.1	Commodities	0.0	1.9
			<i>Return Seeking</i>					
Japan/Pacific Basin	6.5	6.1	Corporate Bonds	9.0	4.7	Infrastructure	4.0	3.1
Emerging Markets	8.5	8.4	Emerging Market Debt		2.6	Absolute Return	10.0	6.0
Global	8.0	4.8	Other Fixed Interest		3.1	Hedge Funds	3.0	2.1
Private Equity	10.0	12.2				Insurance Linked	3.0	1.6
						Special Opportunities	4.0	2.9

Link to investment strategy review

In broad terms, the investment strategy review concentrated on the appropriate level of split between two types of assets, which we categorise as stabilising and return-seeking. The annual review is concerned with the structure of the stabilising and return-seeking portfolios in terms of the asset classes selected and the way in which they are managed.

3 General recommendations

Stabilising assets

These include conventional gilts, index-linked gilts and cash. They are assets that typically respond in a different way to changing economic circumstances from the rest of the Fund's portfolio. They provide the Fund with liquidity and some protection against adverse economic circumstances. In our review of the Fund's bond portfolio in October 2012, we recommended that this portion of the Fund be managed passively and we still advocate this approach.

We recommended a SIAB allocation of 5.5% in index-linked gilts (the existing SIAB allocation at the time), with the remainder in conventional gilts, but suggested that the overweight position in index-linked could be tolerated in the short term. That overweight position persists. The Committee should perhaps decide if and when the position should be brought in line with benchmark; alternatively, it may wish instead to adjust the SIAB to bring it in line with the actual allocation at 30 June 2014 i.e.6.2% (we would be comfortable with such a decision).

There is no single right answer to the split: the Fund's desire to hedge inflation or secure liquidity would be relevant factors. The appropriate split may vary over time and the Committee may wish to consider the split as part of any more general consideration of how the SIAB might develop in the future.

Return-seeking assets

These include equities, alternative assets and non-stabilising bonds. The primary objective of this part of the portfolio is to generate returns in excess of the growth in the Fund's liabilities. It is ways in which this objective might be achieved more efficiently that is the focus of the rest of the paper. Listed equities are the subject of a more detailed analysis to be presented to the Investment Advisory Sub-Committee and only a brief summary of the recommendations is included in the current paper.

In our initial report of October 2012, we arranged our recommendations into three categories. We follow that approach in the discussion that follows.

Governance

The aim here is to ensure that management resource is allocated efficiently. Earlier recommendations generally related to the observation that the Fund is over-diversified in terms of the number of mandates. If these are largely reiterated, it is because, as was acknowledged at the time, unwinding positions in illiquid asset classes can take several years.

- The private equity, overseas property and infrastructure portfolios are spread widely across a large number of relatively small holdings. The aim here should be to reduce the work involved in monitoring managers and assessing new opportunities. In these cases we believe the appropriate plan of action includes:
 - Identifying a list of managers that will be considered
 - Determining the approximate annual net contribution level required to keep or move the portfolio in line with target over time. The nature of these investments means that it would be unrealistic to expect exposure to remain precisely in line with target; we think that aiming for stability in contributions is a more useful discipline.
 - Maintaining and monitoring approximate cash flow projections to ensure that plans remain broadly on course.
- Similar comments could be made in respect of the illiquid holdings in the Fixed Interest portfolio, although the approach here may be best considered as part of the development of the return-seeking bond portfolio more generally. This is addressed later.

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Articulation

The discipline of accounting for the reasons why asset types and individual mandates are included in the Fund is a good way of bringing consistency to the management of the Fund. Over the last couple of years this has resulted in, for example

- splitting the bond portfolio between stabilising and return-seeking components; and
- focusing the Absolute Return portfolio on a narrower range of opportunities.

We also understand that there is an intention to introduce a new classification “Real assets and infrastructure” into the SIAB (it will sit as part of the Fund’s alternatives investments). We understand that this new classification will have a long-term target allocation of 6% of Fund assets and initially be made up of the Fund’s existing infrastructure (4% strategic allocation) and agricultural investments. We are comfortable with this new classification being introduced into the SIAB as it should help with the articulation process and provide greater clarity as to why certain asset classes are held by the Fund.

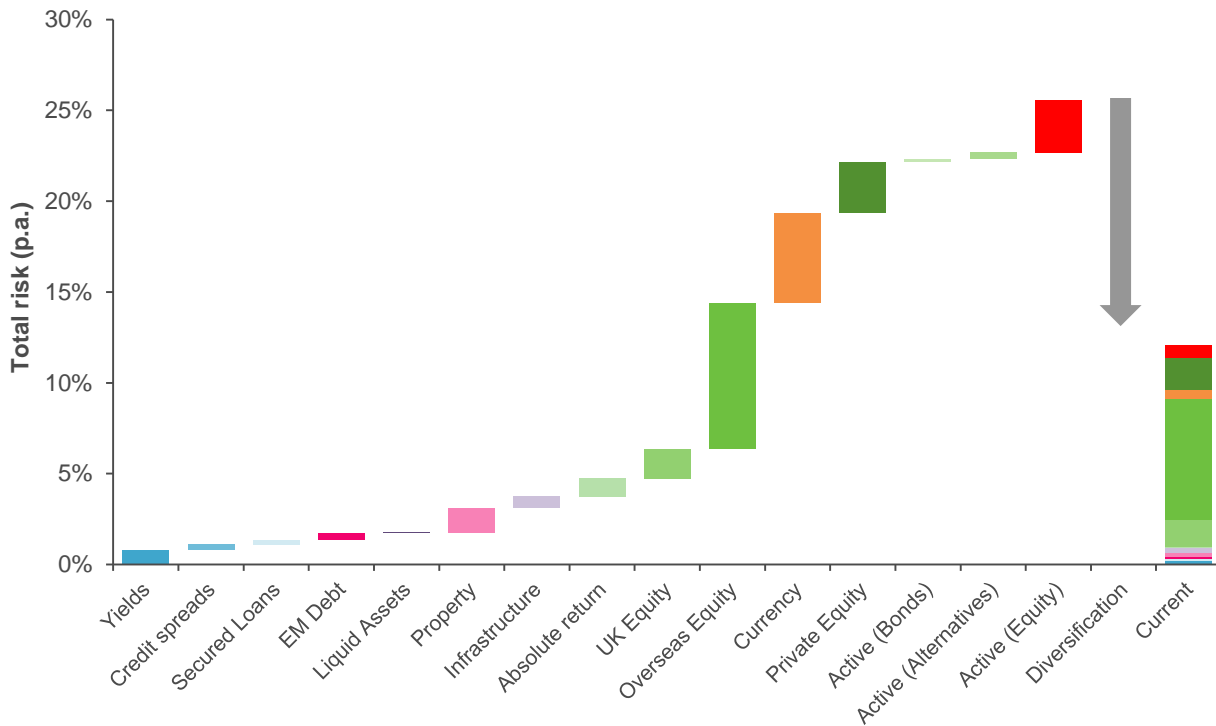
Much of the detail in this respect will be the responsibility of the in-house management team. Examples would be the recommendation to set out more clearly the strategic aims of the private equity, overseas property and infrastructure portfolios in terms of factors such as geographical allocation, focus on income or growth and sector biases. However, we believe that there is also value in the Committee’s undertaking a high-level exercise that sets out its investment beliefs. This will provide a framework for the Committee’s oversight of the Fund and a guide for the in-house team in its management of existing assets and analysis of new opportunities. We would be delighted to help in this belief setting process, perhaps by facilitating a session at your October training days.

Management of risk and return

The aim here is to look for ways to diversify the sources of return in the Fund’s portfolio, to reduce risk while not compromising the Fund’s return objectives.

Investment risk, measured in terms of the annualised volatility of the absolute return on the Fund’s portfolio is represented in the “waterfall” chart below. It shows, on the rightmost bar, the overall risk of the current strategy. This risk is around 12% p.a. In effect, this figure indicates that there is a 2 in 3 chance that the change in the value of assets in any year will be less than 12% above or below the average expected return. There is of course a 1 in 3 chance that the change in value could fall outside that range in either direction. To the left of the overall risk bar, the chart also shows the risk attributable to various elements of the portfolio viewed in isolation, as well as the benefits of diversification (i.e. the tendency of different risks to offset one another) in reducing overall risk (the black arrow).

Chart 1: Fund's risk breakdown



We make a few general observations. Again, these will in some cases confirm observations made in the past.

- The SIAB is already well diversified, spreading risk across a wide range of asset classes, and should obtain long-term benefits from the offsetting of these individual risks.
- Equity-related risks still dominate. This is not surprising, given the liquidity and potential returns that equities offer. Nevertheless, there is scope to diversify further to other areas that currently contribute only a small amount of risk.
- This means that we will, in general, be comfortable, with any moves to make modest increases to existing allocations at the expense of equities. Any changes should, of course, be subject to the effect on management resources and consistent with the agreed strategy for the asset class.
- Our view is that most risk premiums have been compressed by the strong performance of most asset classes in recent years. There are few, if any, genuinely cheap opportunities available. This may affect the implementation of changes to the SIAB – a decision that is strategically sound can be undone for many years by poor tactical implementation. The considerations to be borne in mind include:
 - Changes to the SIAB will involve some element of relative assessment. Buying an expensive asset need not be ruled out if it is funded by the sale of a more expensive one.
 - The strategic decision to invest in an asset class should be separated from the actual timing of the investment. Planning strategic changes should be viewed as preparing the Fund to do the right thing at the right time, not as requiring immediate action.
 - Where disinvestment is planned, a temporary increase in allocations to stabilising assets might be considered pending the opportunity to invest elsewhere.

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- It may be difficult in practice to obtain exposure at a meaningful level to new opportunities that are of strategic interest. In these cases, the Fund's Special Opportunities allocation can be used as an incubator, helping to build familiarity with new asset classes until more substantial investment is practical.
- The Fund has a substantial exposure to illiquidity risk through its private equity, infrastructure, property and absolute return portfolios, which is not separately analysed above. The Fund has the capacity to accept illiquidity risk, but should be aware of the extent and consider whether there is a limit on illiquid assets in general that should be applied. Maintaining cash flow projections, as mentioned earlier, will be useful in monitoring that distributions from illiquid investments are in line with expectations.

More specific comments on individual asset classes are set out in the next section.

4 Asset classes

Listed equities

- The Fund's portfolio of actively managed global equity mandates should be streamlined along the lines already implemented for the emerging market portfolio.
- Other than emerging markets, regional portfolios should be managed passively.
- The size of the SIAB allocations to different geographical regions should be reviewed.
- Consideration could be given to further diversification in the form of a passive global mandate managed against a non-standard index.

Fixed Interest

- As outlined in Section 3, the Committee may wish to adjust the SIAB's strategic allocation to index-linked gilts to bring it in line with the actual allocation (as at 30 June 2014) of this asset class.
- Exposure to Emerging Market Debt is lower than the SIAB allocation. Although the market has rallied from its lows in January, valuations look less extended than they do in many other asset classes. This may be one area that could be considered for additional investment.
- As we suggested in our review of the bond portfolio in October 2012, we recommend that the rest of the return-seeking portfolio should focus on alternative credit markets, such as high yield bonds, secured loans and asset-backed securities. We believe that investigation should continue as to how exposure to alternative credit would be best achieved and managed for the Fund.
- This investigation should include consideration of whether exposure to illiquid, private debt can be incorporated within broad credit mandates or should be managed separately.
- This is one area where the strategic decision to invest may be separated from the implementation of the decision. Currently, exposure to credit is focused on higher quality, investment-grade issues. We do not think there is any urgency to raise the risk profile.

Property

- We are aware that the Officers are considering a modest increase to the property SIAB allocation to 10%. Both from the perspective of relative value and the strategic exposure, we are happy to support this.
- In practice, the actual exposure to property may be affected in the short term by market conditions and any restructuring that might take place following CBRE's recent re-appointment as the mandate's manager. Any short-term reduction in exposure should be tolerated even if the strategic decision is to raise the SIAB allocation.

Infrastructure

- The Fund's participation in the Pensions Infrastructure Platform may provide opportunities to raise exposure over time. Here, too, we are happy to support such an increase where the right opportunities are available.

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Commodities

- We have always had reservations about the value of commodities as a strategic asset for pension funds. We therefore have no issues to raise in respect of the intended sale of existing exposure.
- Farmland and timberland could offer a more suitable means of gaining exposure to returns from natural resources. The Fund already has a small exposure through the Insight Farmland and the BlackRiver Agriculture funds. However, we think this is an area where the Fund will struggle to build a meaningful exposure at a sensible price.
- We are comfortable with the Fund's Agriculture holdings forming part of the new "Real assets and infrastructure" segment.

Absolute Return

- We continue to advocate, as we did in our review of the Absolute Return portfolio, that any hedge fund exposure should focus on strategies and funds that show a low correlation to equities and other traditional assets.
- However, we understand that the officers are considering removing hedge funds from the Fund's SIAB. Any hedge fund exposure implies a belief in the ability to select managers that can generate returns sufficient to cover the costs incurred and the governance demands associated with such mandates. If the officers and committee no longer have that belief, then we are comfortable with the Fund's hedge fund holdings being redeemed in an orderly fashion and the proceeds recycled into other growth assets.
- We remain comfortable with building exposure to Insurance-Linked Securities on a strategic basis. The recent performance of the market suggests that there is no urgency to reach target. Our preference remains that the Fund should aim to get exposure on a segregated basis that allows it to tailor the mandate to its own return requirements.

Other

- There are a range of other asset classes that could be viewed as potential investment opportunities for the Fund e.g. social housing. We will keep you informed of these potential investments; highlighting those that we think could be considered further by the Fund. At this time, beyond the points raised above (including the desire to rationalise and simplify the Fund's investment structure), we do not see any strong argument for introducing any new asset class into the Fund's investment structure at this time.

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5 Summary

The investment strategy review carried out earlier this year indicated that the Fund's high-level strategy was appropriate to meet the Fund's funding objectives in current circumstances. The SIAB sets out the structure chosen to implement that strategy and is well diversified across a range of asset classes. Equity risk still dominates and the Fund should continue to seek out suitable opportunities to reduce equity exposure and diversify into other areas that currently contribute relatively small amounts of risk. Following a period of strong performance from most asset classes, we think there are few cheap opportunities currently available.

The Fund remains over-diversified in terms of the number of mandates. Our last review suggested that consolidation was likely to take a period of years. We recognise that progress has already been made in streamlining the portfolio and in putting in controls to make the management and oversight of portfolios more efficient. However, we believe that this should remain a key priority for the Fund.

We believe that control of the investment management of any fund benefits from clarity about the aims of investment in each asset type and in the selection of individual mandates. For the Fund, much of this is the responsibility of the in-house management team. We suggest that this should be supplemented by the Committee's formally setting out its investment beliefs. This will provide a high-level framework for the Committee's oversight of the Fund and act as a guide for the in-house team in its management of existing assets and analysis of new opportunities.

We have set out some detailed recommendations about the structure of individual asset class portfolios. Whether these or others are agreed, we believe it is important that actions are prioritised and timetabled in a business plan. This should not be set in stone; priorities can change and any business plan should reflect this. It should be driven by a sensible assessment of available resources rather than attempt to achieve all identified actions by a random target date. However, a flexibly managed and realistic business plan, set up and maintained by the in-house team, would provide the Committee with a valuable summary of the work done and planned on its behalf.

We look forward to discussing this paper with you at your September meeting.

Prepared by:

Graeme Johnston,
Partner

William Marshall
Senior Investment Consultant

For and on behalf of Hymans Robertson LLP
2 September 2014

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix 1 – Fund holdings as at 31 March 2014

Table 2: Listed equity portfolio

	£m		£m
Equities	4,625.2		
UK	1,000.4	US	978.6
Legal and General	29.2	Intech	146.5
In house	971.3	In House	832.1
Japan	183.1	Europe	677.8
Nomura	36.2	Blackrock	236.8
In House	146.8	In House	440.9
Pacific Basin (ex Japan)	413.3	Global Equities	526.1
Schroders	46.6	Baillie Gifford	38.3
In House	366.7	BlackRock	140.2
Emerging Markets	845.9	MFS	316.7
AGF	291.0	Old Mutual	30.9
F&C	297.9		
Mondrian	257.0		

Table 3: Fixed interest portfolio

	£m		£m
Fixed Interest	2,174.7		
Gilts	192.5	Other	262.5
Legal & General Passive	192.5	Highbridge Senior Loan	57.6
Index Linked	639.1	Advent	54.2
Legal & General Passive	639.1	Goldman Sachs	4.3
Sterling non-gilts	480.8	Newton Global Dynamic Bond	48.1
RLAM	171.3	Prudential M&G UK Companies	35.0
Schroder Corporate Bonds	246.9	Park Square Capital Partners II	12.1
Legal & General Passive	62.6	Indigo Capital	4.9
Overseas Government	74.5	Jupiter Convertibles	46.2
Legal & General Passive	74.5	Cash	261.5
Emerging Market Debt	263.7		
Ashmore	66.7		
Pioneer	70.4		
Capital International	69.0		
Bluebay	57.6		

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Table 4: Property portfolio

	£m		£m
Property	927.8		
UK (Direct)	629.8	Asia (Indirect)	20.1
CBRE/In-house	629.8	AEW Value Asia	0.6
UK (Indirect)	58.4	Phoenix Asia IV	17.7
Igloo Regeneration	12.8	Phoenix Asia V	1.8
Kames Property Unit Trust	33.1	Emerging (Indirect)	34.3
Bridges Sustainable Prop Fund	12.5	Goldman Sachs Dev Real Estate	2.0
US (Indirect)	39.6	Brazil REOF I	5.4
Beacon Capital Strategic Partners	9.9	Brazil REOF II	6.1
Blackrock Res. Opps Fund	21.8	PLA Residential Fund III	10.2
High Street Ref III	7.8	Bluehouse AP III	10.6
Europe (Indirect)	67.1	Global (Indirect)	78.5
AEW Episo	14.2	Blackrock Global	1.1
Rockspring Pan European PUT	6.5	Whitehall Street	3.9
RREEF European Value	3.6	UK Morgan Stanley AIP	31.8
Sveafastigheter Fund III	21.0	Morgan Stanley REFVE VII	16.4
Mansford Real Estate Opportunities Fund	21.8	Dune REF II	25.3

Table 5: Infrastructure portfolio

	£m		£m
Infrastructure	293.4		
UK PFI/PIP	38.2	CleanTech	106.3
Henderson PFI Secondaries	26.4	HG Renewable Power Partners	4.0
Innisfree PFI Secondaries	11.6	Aqua Resources Fund	10.6
Dalmore PIP	0.2	Riverstone/Carlyle Infrastructure	18.0
Global Diversified	148.9	Khosla Ventures III	15.7
ARCUS Euro Inf. I	13.4	Impax New Energy	3.4
Infracapital Partners	13.6	Waste Resources Fund	8.5
Eiser Infrastructure	12.5	Impax New Energy II	18.5
Steelriver	15.6	Blackstone Cleantech	10.7
J P Morgan AIRRO	32.1	First Reserve Energy Fund	17.0
AMP Capital AGIF	8.3		
Global Infrastructure Partners	9.7		
Goldman Sachs Int. Infrastructure	9.0		
EQT Infrastructure Fund	19.5		
Alterna Core Capital	15.2		

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Table 6: Commodities portfolio

	£m		
Commodities	189.6		
<i>Futures and equities funds</i>	171.5	<i>Farmland</i>	18.1
Goldman Sachs Commodities	33.0	Insight Global Farmland Fund	17.6
Wellington Mgt Commodities	31.4	Blackriver Agriculture	0.5
Investec Global Com & Res	30.9		
Mesirow Fin Com Mgt	22.2		
Blackstone Resources Select	33.5		
Theam Quant Commodities	20.5		

Table7: Absolute return portfolio

	£m		
Absolute Returns	642.6		
<i>Hedge Fund – macro, etc.</i>	191.2	<i>Insurance-linked securities</i>	112.6
Bluetrend Fund Ltd	41.9	Coriolis Mistral Fund	
Blue Crest Ltd	52.2	Coriolis Horizon Fund	37.4
Aspect Fund Class I	58.0	Catco Diversified Fund	1.4
Capula GRVF	39.1	Catco Series B	46.3
<i>Hedge Fund – credit</i>	10.4	Catco Series C	27.5
Oakhill Strategic Credit Fund	8.4	<i>Diversified Growth</i>	170.7
Goldman Sachs Opp Partners	2.0	CF Ruffer Total Return	76.3
<i>Hedge Fund – equity-related</i>	78.5	Baillie Gifford LF Div. GW	49.5
Taconic Opportunity Fund	40.0	Baring Int IRE Dynamic	44.9
Davidson Kempner Int.	38.5	<i>Other</i>	50.2
<i>Funds of Hedge Funds</i>	29.0	Sciens Aviation Special Opps	9.9
Dorchester Capital Secondaries	3.7	Sciens Aviation Special Opps II	21.7
Dorchester Capital Secondaries I	14.1	Oaktree Fund V	18.7
Dorchester Capital Secondaries III	11.2		



Pensions Committee

24 September 2014

Report Title	Active Ownership Activities April to June 2014	
Originating service	Pension Services	
Accountable employee	Leanne Clements Tel Email	Responsible Investment Officer 01902 55(2086) Leanne.Clements@wolverhampton.gov.uk
Report has been considered by	Geik Drever Tel Email	Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendations for noting:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 30 June 2014 (including Appendix 1).
2. The issues discussed by the Local Authority Pension Fund Forum (LAPFF) in the Quarterly Engagement Report which is available on their website:
<http://www.lapfforum.org/Publications/engagement>

1.0 Purpose

- 1.1 To inform the Pensions Committee of the work undertaken by the Investment team regarding their voting and engagement activities, collectively referred to as “active ownership” activities, between the period 1 April 2014 to 30 June 2014.

2.0 Background

- 2.1 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 set by their peers or reasonable expectations as measured by best practice. The Fund’s approach is part of its overall investment management arrangements and its active responsible investment policy. There are two main areas of responsible investment that we focus on: **voting globally** and **engagement through partnerships**.

3.0 Voting Globally

- 3.1 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on our behalf. However, the Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.
- 3.2 The voting activity for the quarter across markets and issues can be found in Appendix 1. During the period the Fund voted at a total of 1,737 company meetings –215 UK, 341 European, 594 North American, 411 Japanese, 140 Asian, 14 South and Central American and the remaining 22 from various parts of the world. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld* 7,130 resolutions out of a total of 23,367, representing approximately 31% of all resolutions. During this period there were 138 meetings where the Fund supported all the resolutions put forward by companies.

**(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 Engagement through Partnerships

- 4.1 Our engagement program is predominantly implemented through the Fund’s membership of the Local Authority Pension Fund Forum (LAPFF). 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”. LAPFF has a current membership of 60 public sector pension funds in the UK with combined assets of over £125 billion. LAPFF members regularly meet together to discuss social, environmental and governance (ESG) issues and ways to promote high standards of corporate behaviour at investee companies.

- 4.2 A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1.
- 4.3 Wolverhampton City Council 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 previously reported, LAPFF has included this matter into their current engagement programme.
- 4.4 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 and is in the process of being scheduled. The other company subject to a compensation claim is Wolverhampton based Carillion and a meeting has been scheduled for 29 October 2014. There had been some delays in setting up the meeting due to the Balfour Beatty proposed merger discussions. Details of the progress of the engagement will be reported as and when appropriate.

5.0 Financial implications

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

6.0 Legal implications

- 6.1 This report has no legal implications.

7.0 Equalities implications

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

8.0 Environmental implications

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

9.0 Human resources implications

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

10.0 Corporate landlord implications

- 10.1 The report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 Background papers include Appendix 1 (Voting and Engagement Activity), and supplemental information which is available at the following weblink:

- LAPFF Quarterly Engagement Report April to June 2014:
<http://www.lapfforum.org/Publications/engagement>

12.0 Appendices

12.1 Appendix 1: Voting report 01.04.14 to 30.06.14

Voting report

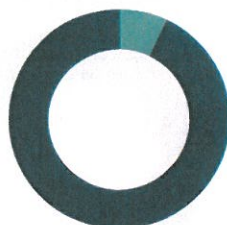
Over the last quarter, we voted at 1,737 meetings (23,367 resolutions). At 1,599 of those meetings, we opposed or abstained one or more resolutions. We supported management on all resolutions at 138 meetings.

Total
We voted at 1,737 meetings (23,367 resolutions) over the quarter.



■ Total meetings voted in favour **7.8%**
■ Meetings where voted against or abstained **92.2%**

UK
We voted at 215 meetings (3,919 resolutions) over the quarter.



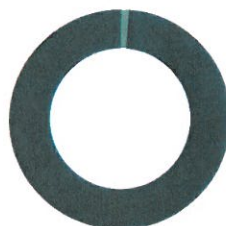
■ Total meetings voted in favour **7.0%**
■ Meetings where voted against or abstained **93.0%**

UK: votes against and abstentions by category



■ Annual reports **6.6%**
■ Remuneration reports **6.6%**
■ Articles of association **3.0%**
■ Auditor's appointment **23.4%**
■ Directors **47.2%**
■ Executive pay scheme **13.2%**

North America
We voted at 594 meetings (7,031 resolutions) over the quarter.



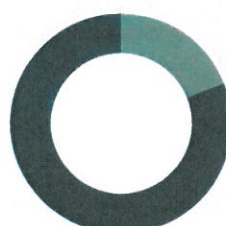
■ Total meetings voted in favour **1.3%**
■ Meetings where voted against or abstained **98.7%**

Europe
We voted at 341 meetings (5,819 resolutions) over the quarter.



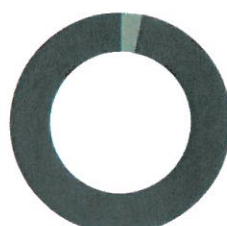
■ Total meetings voted in favour **6.5%**
■ Meetings where voted against or abstained **93.5%**

Japan
We voted at 411 meetings (5,070 resolutions) over the quarter.



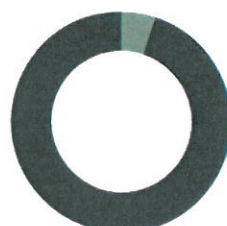
■ Total meetings voted in favour **19.0%**
■ Meetings where voted against or abstained **81.0%**

Asia (excluding Japan)
We voted at 140 meetings (1,241 resolutions) over the quarter.



■ Total meetings voted in favour **3.1%**
■ Meetings where voted against or abstained **96.9%**

Rest of the World
We voted at 36 meetings (287 resolutions) over the quarter.



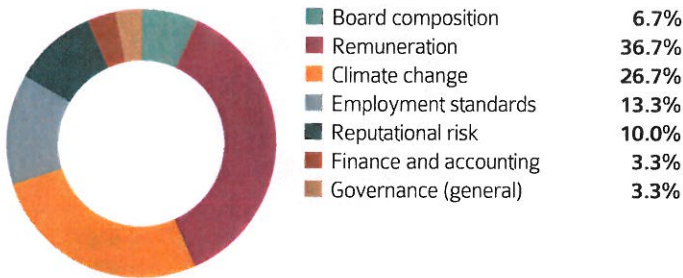
■ Total meetings voted in favour **5.1%**
■ Meetings where voted against or abstained **94.9%**

April to June 2014

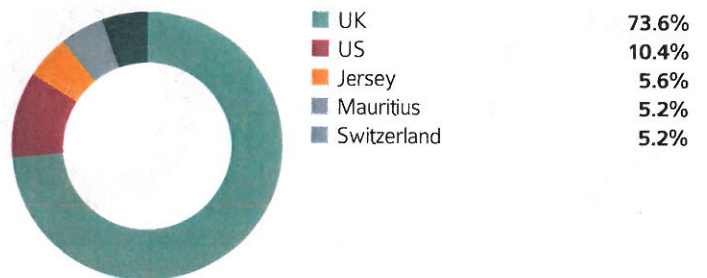
Engagement summary

Over the last quarter, the Local Authority Pension Fund Forum (LAPFF) engaged with 19 companies on a range of nine environmental, social and governance issues on behalf of the Fund and other members. Where applicable, LAPFF will engage with companies on more than one issue simultaneously. The engagements included in these figures are supplementary to our voting-based engagements during proxy season.

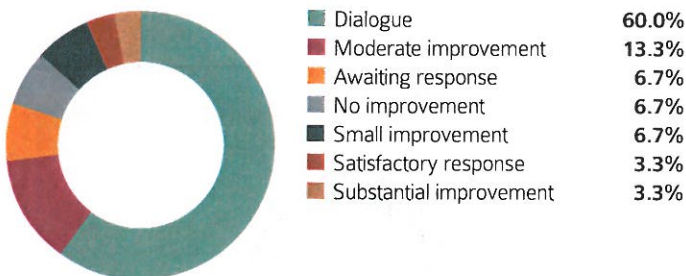
Engagement by theme



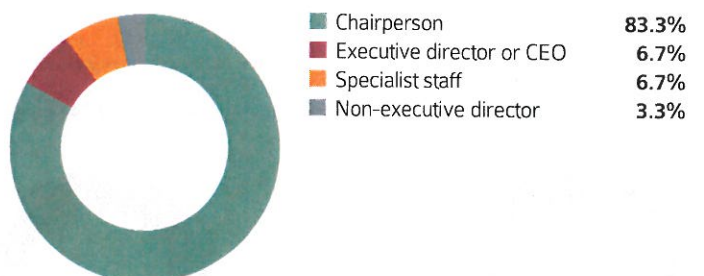
Engagement by geographic region



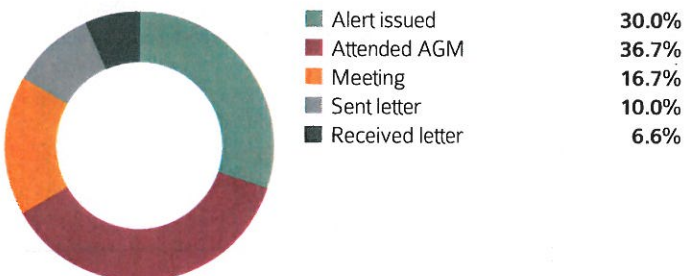
Engagement by outcomes



Engagement by company contact



Engagement by activity





Pensions Committee

24 September 2014

Report title	Governance Reform 2014 - Update	
Originating service	Pension Services	
Accountable employee(s)	Rachel Howe	Head of Governance
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The Report has been considered by	Governance Review Working Party	3 September 2014
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Recommendation(s) for action or decision:

The Committee is recommended to:

1. Agree the structure of the Pension Committee under the 2014 reform subject to any statutory guidance.
2. Agree the structure and remit of the Pension Board under the 2014 reform
3. Delegate authority to the Director of Pensions to implement the changes in conjunction with the Administering Authority
4. Recommend to Full Council of the Administering Authority the changes to be implemented and approved.

1.0 Purpose

- 1.1 To provide an update of the work undertaken on the governance reforms to date and to detail the next steps for implementation.

2.0 Background

- 2.1 Further to the report to the last Committee in June, the Working Party created by Committee has met to discuss the required governance structure of the Fund moving forward. Copies of the papers provided to the working party at its meetings are attached as Appendix One.
- 2.2 Through working with the Working Party, the Fund submitted its response to the government consultation on the draft regulations and we are now awaiting the final regulations. A copy of that response is attached as Appendix Two.
- 2.3 Conversations with other LGPS Funds' representatives and commentators suggest that our response was in line with those responses throughout the industry and Officers are grateful to the contribution of the Working pPrty for their assistance in formulating that response.
- 2.4 At the time of writing we are aware that final regulations will be formalised in the Autumn and we have been led to believe that this will be late September with guidance from the Pensions Regulator to follow. As such, at the time of writing, we are still pending formal notification of what the role of the Pension Board will be together with its remit. Should we receive this information before committee an update note will be provided.
- 2.5 Working on the basis of the majority of consultation responses, it is accepted by the Fund that the pension board will not be a S101 committee and will instead fall to the Fund to determine its terms of reference.
- 2.6 It was this element the working party were asked to consider at the meeting on 3 September.

3.0 2014 Pension Committee

- 3.1 The Pensions Committee in being a S101 committee is determined by legislation in how it is to be formed and controlled and therefore consultation with the Working Party centred on the membership of the Committee only.
- 3.2 The first meeting of the Working Party agreed that due to the representation on the new Pension (Advisory) Board the 2014 (Decision Making) Committee would consist of elected councillors only. It further agreed that as the Pension (Advisory) Board would appoint two elected councillors, the number of elected councillors on the 2014 Pension Committee would be reduced in the number of Wolverhampton elected councillors; the number of District elected councillors would remain unchanged.

- 3.3 The second meeting of the Working Party consisted of different representation and at this meeting the question was asked and the recommendation made by trade unions that trade unions remain on the 2014 (Decision Making) Committee.
- 3.4 There is therefore a conflict of recommendation from the Working Party.
- 3.5 Under the Local Government Act 1972 Section 102 a local authority can appoint “persons who are not members of the appointing authority” onto their committees which allows Wolverhampton City Council to appoint other elected members and include trade unions on its current Pensions Committee. This provision continues under the 2014 reform.
- 3.6 What committee need to consider is the resourcing of the new arrangements as persons appointed to the decision making committee cannot sit on the pension (advisory) board and so additional representatives would need to be sought, therefore increasing the resources (cost) of the Fund to deliver training. There are representatives of the employers on the committee from the 6 District Councils.
- 3.7 It is further acknowledged that the heightened responsibility of the pension (advisory) board in being a statutory board with statutory powers (currently the joint consultative forum are voluntarily created with no statutory power) increases the role of trade unions as member representatives in ensuring the decision making committee adheres to the legislation and guidance, an assurance now supported by legislative powers.
- 3.8 In contrast to that is the valuable contribution trade union representatives have made to committee since its inception and the ability to have their views expressed at the point of decision. It is felt that this contribution would be lost should the committee consist of elected councillors only.
- 3.9 Currently we are awaiting final guidance and regulations as to how the new governance structure will work after April 2015, however, as the pensions committee is a S101 it is envisaged that no person will be excluded and that the Committee can appoint who they want to sit on it.
- 3.10 Draft Terms of Reference for the pension committee are attached as Appendix Three and are drafted to include trade union membership. Committee is recommended to consider the proposals and agree a membership in readiness for implementation in April 2015.

4.0 Pension Board Terms of Reference

- 4.1 Working on the basis of the majority of consultation responses, it is accepted by the Fund that the Pension Board will not be a S101 committee and will instead fall to the Fund to determine its terms of reference.

- 4.2 The Working Party was asked to consider the role of the Pension Board, together with its obligations to the Fund and its members.
- 4.3 In considering these elements, the Working Party acknowledged the statutory duty of the Board being to ensure the Pension Committee adheres to and complies with the legislation and guidance issued together with its own duty in ensuring due diligence of those decisions taken by the Committee and by officers of the Fund.
- 4.4 It is the recommendation of the Working Party that the Pension Board consist of a ratio of 5:5 employer and member representatives, ensuring one representative from each employer group within the Fund. It was further acknowledged that the Pension Board would be new in its creation and that the experience and knowledge base may need supporting in the first year at least. The Working Party therefore recommends that the Pension Board also appoint two elected councillors from the current Pension Committee (thereby reducing the current number by two) to sit on the Pension Board therefore ensuring consistency of knowledge and experience.
- 4.5 While we are still waiting for formal notification of the Pension Board's role, we know from the legislation that they are to advise and assist but not to form scrutiny of the Committee's decisions. It is proposed that the board will be able to review the diligence of decision making but not the decision itself.
- 4.6 The Working Party were therefore asked to consider the frequency of the Board's meetings together with their ability to access papers and documents of the committee to assist their advisory role.
- 4.7 The Working Party agreed that when drafting terms of reference it is better to provide a minimum which can be increased as need arises, rather than a definitive number which may not be required or may not be adhered to due to calendar conflicts. It is therefore recommended by the Working Party that the Pension Board meet a minimum of twice yearly with the ability to call extra meetings (subject to a quorum of 7) should they feel it appropriate or the committee wishes to call upon them for assistance. Their ability to access papers is recommended to be the same as elected councillors.
- 4.8 The proposed terms of reference recommended by the Working Party are attached as Appendix Four and Committee are recommended to approve these in readiness for implementation in April 2015.

5.0 Next Steps

- 5.1 As stated, at the time of writing we are awaiting final regulations and statutory guidance on the role and function of the Pensions Board however, to assist with our own timetabling we believe it beneficial to commence discussions on this element as early as possible.

- 5.2 Should Committee agree with the proposed terms of reference for the Pensions Committee and the Pensions Board, the Director of Pensions will begin consultation with the Administering Authority for the implementation of these in readiness for April 2015. Should final regulations or guidance change entirely the understanding of Officers as to the role and remit of the board, a further report will be brought back to Committee for further discussion and delegation.
- 5.3 The Fund will be required to present its proposals to a number of committees and formal panels of the Administering Authority in order to present the final recommendations to Full Council in January 2015 hence the need for delegation to the Director to enable the timetable of those meetings to be met.
- 5.4 It is proposed that as part of those discussions with the Administering Authority, consultation will also commence with employer and member groups as part of the Fund's recruitment of persons to be appointed to the new Pensions Board.
- 5.5 In commencing discussions with the Administering Authority the Fund will also be collating all of its governing documents (terms of reference for Committee/Pension Board, delegations from Wolverhampton City Council to committee/officers, procedures of meetings, policies/statements) into one formal constitution which will be readily available on the Fund's website and which will provide all available information on the Fund in one document therefore making it easier for our members.
- 5.6 Discussions with the Administering Authority on how to create this document in line with Wolverhampton's own constitution will form part of the Pensions Committee's delegation to the Director in taking forward these governance reforms and committee will be asked to formally adopt that constitution as part of the implementation of the governance reforms.

6.0 Financial implications

- 6.1 The financial implications of the reforms were highlighted in the June committee report. This report is an update on the actions taken and poses no further financial implications other than those previously identified.

7.0 Legal implications

- 7.1 The legal implications of the reform were highlighted in the June committee report. This report is an update on the actions taken and poses no further legal implications other than those previously identified.

8.0 Equalities implications

- 8.1 This report provides an update on the work undertaken to implement the reforms, as such no decision to formally adopt the reforms has been taken. There are therefore no equalities implications.

9.0 Environmental implications

9.1 None identified

10.0 Human resources implications

10.1 The HR implications of the reform were highlighted in the June committee report. This report is an update on the actions taken and poses no further HR implications other than those previously identified.

11.0 Corporate landlord implications

11.1 None identified

12.0 Schedule of background papers

12.1 Public Services Pensions Act 2013

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

12.2 Consultation paper and responses

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

12.3 Guidance issued by the Pensions Regulator

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

12.4 25 June 2014 Pensions Committee report "Governance Reforms

<https://wolverhamptonintranet.moderngov.co.uk/documents/s2498/12.Governance%20Reform%202014.pdf>

Additional documents

<https://wolverhamptonintranet.moderngov.co.uk/documents/s2499/12%20App1%20and%202.pdf>

13.0 Schedule of Appendices

13.1 Appendix 1A

Papers of the Working Party 18 July 2014

Appendix 1B

Papers of the Working Party 3 September 2014

13.2 Appendix 2

WMPF Consultation response

13.3 Appendix 3
Pension Committee Terms of Reference

13.4 Appendix Four
Pension Board Terms of Reference

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Briefing Note

Questions to Be Considered

You will see from the papers that there are a number of questions to be considered and to assist attached is a “recommendations of the working party table” which highlights the questions posed, the considerations and the proposed recommendation. You are asked to consider the information contained within this paper and attend the meeting of the working party having considered the questions and formed recommendations.

Interpretation

For clarity, the following terms have the following meanings within this note.

The 2013 Act	Public Services Pensions Act 2013
Draft Regulations	The Local Government Pension Scheme (Amendment) Regulations 2014.
Trustees	Persons currently appointed to the Pensions Committee
Members	People in receipt of a pension, a deferred pension, an employee paying into their pension.
Employers	Employers in the Fund
Councillors	Publicly elected councillors of local authorities
WCC	Wolverhampton City Council
The Council/ Full Council	The full Council as decision-making body of WCC
Scheme Manager Committee	The new Pensions Committee under the 2013 Act

Current Governance Structure

Currently, Wolverhampton City Council are the administering authority for pensions within the West Midlands.

This makes pensions a function of the Council.

Section 101 of the Local Government Act 1972 allows local authorities to delegate their functions to be performed on their behalf either by a committee of the council, a sub-committee, an officer or another authority.

In considering their ability to delegate their functions, Wolverhampton City Council has delegated the function of pensions to the Pensions Committee.

The Pensions Committee consists of 18 councillors nominated by each local authority in the West Midlands to be their representative together with four trade union observers.

Again, under S101, the Pensions Committee has the ability to delegate some or all of its function to another committee, a sub-committee or an officer and has elected to delegate the establishment of policies in relation to investment management, the oversight and monitoring of investment

activity and the performance of the Fund to the Investment Advisory Sub-Committee.

The Committee has delegated the administrative management of the Fund to the Director of Pensions who, in turn, has delegated to her officers.

A diagrammatic structure of the Fund is attached as Appendix One.

Future Governance Structure

The Role of the Scheme Manager

Under the 2013 Act, local government pension funds are now required to have Scheme Managers who are the administering authority for the Fund. In our case, the Scheme Manager is Wolverhampton City Council.

Section 4 requires that each scheme appoints a Scheme Manager, a person responsible for managing or administering the scheme. The Scheme Manager will have ultimate responsibility for the scheme and is a S101 function which enables the Scheme Manager to be a committee, much the same as we currently have. Because of this, the draft regulations don't say anything about the general make-up of a Scheme Manager Committee except to question whether the ability to form joint or combined committees should be provided for in the final regulations. This is addressed later in the report.

Under the Act, the Scheme Manager can have a divided role, one for the administration of the Fund and one for the management of it.

So, the first question is whether the role should be divided by Wolverhampton City Council as administering authority or whether the role should remain intact.

The Scheme Manager One or Two?

Under the Act, each Scheme Manager is required to be advised and assisted by a Pension Board. In considering the division of the two roles of Scheme Manager, should these be divided, each could be delegated to a committee and, therefore, each would require a Pension Board and this would need to be considered in practicality.

Two committee and two pension boards would require a large amount of administering; it would require two sets of nominations for equal representation and require two lots of resources from the Fund. There may be difficulty in obtaining nominations to either the management committee or the

administration committee where persons appointed feel that one has more influence or greater responsibility than the other (although in reality they will be equal), there may be a risk of “cherry-picking” seats. However, the division of skills for each role might be more suited to the division of Scheme Managers ensuring a specific skill set for each rather than expecting persons appointed to the committee to have a dual role and require dual skill sets.

Compare this to having one Scheme Manager requiring one Pension Board.

The Scheme Manager would hold both the management and administration role as they do now and be advised by one Pension Board. In having one committee, it may be considered overly burdensome to expect those appointed to have knowledge of both processes. However, it may also be advantageous, as persons appointed to the committee may feel they have a greater say in the overall management of the Fund, there would be no “cherry-picking” of seats and, subsequently, no feeling of discontent; everyone appointed would have the same level of influence over every decision. Further, as it is a S101 committee, the current nominations could remain on the 2014 committee, therefore ensuring the retention of knowledge and experience which has been built up over the years, and would see that knowledge working together in one committee rather than being divided amongst two.

The administering of one committee would also be advantageous to the Fund’s resources as it attempts to work to best value in consideration of the financial burdens facing local authorities.

In considering these options, it is recommended not to divide the role of Scheme Manager.

Item For Decision

Does the working party agree that the Scheme Manager role should not be divided – with one Pensions Committee taking on the whole Scheme Manager function?

Subsequent Delegations

As outlined above, the current structure provides for the current Pensions Committee to delegate the role of investments to the Investment Advisory Sub-Committee. As the new Scheme Manager function is a S101 function and can be delegated, there is provision in the new arrangements to create a sub-committee also.

The creation of a sub-committee will assist with the work of the Scheme Manager, as it will enable the sub-committee to specialise in an area of particular expertise and knowledge enabling those persons appointed to focus on those elements. The current sub-committee has been a successful body in the work of the Fund and has provided an opportunity to develop skill sets. It would be considered to be a disadvantage to lose this body in the new structure.

It is the recommendation of the Fund to continue to delegate certain areas of work to an appropriate sub-committee.

Item For Decision

Does the working party agree to continue with the Sub-Committee in the new structure?

The Pension Board

Section 5 of the Act requires that each Scheme Manager is advised and assisted by a pension board whose role will be to help ensure compliance with the legislation in the governance and administration of the scheme, together with any role or function the fund chooses to grant to the board.

The pension board is required to consist of a proportionate number of employer representatives and member representatives with the draft regulations requiring that there be a minimum quorum of four. The draft regulations also propose that in addition to any member and employer representatives, pension boards can also appoint “others” to sit provided the number of these “others” does not exceed the total number of employer and member representatives.

What the regulations do make clear is that elected councillors cannot sit as an employer or a member representative; therefore, it will fall to officers to take on the duty of sitting on the pension board. However, elected councillors can sit as these “others” so we won’t lose the experience and knowledge gained by councillors over the years.

Those appointed to the board are to be scrutinised by the Scheme Manager in ensuring no conflict of interest arises, and they have a duty to declare any interests to enable the Scheme Manager to identify such conflicts should they arise.

What is unclear is what constitutes a conflict of interest; some commentators believe this to mean actual conflicts rather than potential ones as potential conflicts would be extremely difficult to manage. The working party are encouraged to ask for clarity on this as part of our consultation response.

As well as ensuring there is no conflict, there is also a requirement on the Scheme Manager to ensure those appointed to the pension board meet the knowledge and understanding requirement through relevant training.

Combined

On reading the legislation, it does not appear that the intention is to have one committee performing both the Scheme Manager/decision-making role and the pension board/ advisory role. They are, after all, two distinct functions. However, the draft regulations are asking whether pension committees could be combined with pension boards under the new structure, subject to the proportionality requirement and on gaining permission from the Secretary of State. The regulations suggesting that permission for a combined committee will only be given in certain circumstances, it is not anticipated to be the norm.

It is recommended to the working party that WMPF establish a pension board separate from any committee established to perform the Scheme Manager role.

Joint

The other question in the consultation is whether there should be joint pension boards.

To be clear, a combined board will be where the scheme manager committee and the pension board are combined in the same authority. A joint board will be where the Scheme Manager Committee and the pension board remain separate within their own authority but have the ability to join with other authorities.

The advantage of this being where there are smaller funds who lack resources to manage their own board. It would also assist WMPF as, as you know, we manage ITA on behalf of Centro, so the ability to combine a pension board with them would assist in our resources and management.

The consultation on the draft regulations asks two questions on this point:

- 1) Should the pension board be a S101 committee
- 2) Should the final regulations allow for combined/joint Scheme Manager Committees and pension boards.

Question 1

While a S101 requirement for the board would seem advantageous, it may be considered overly burdensome and restrictive in consideration of the role of the pension board as an advisory and not decision-making body.

Local government authorities are used to working to the S101 committee style and WMPF would consider the same principles under S101 when considering the terms of reference for the pension board even if this was not included in the final regulations. However, flexibility would be useful which may allow for shorter notice of meetings.

The ability to resource a separate board for a small fund with two employers (especially given the knowledge and understanding requirement for the board members) appears potentially burdensome.

Should the S101 provision apply, it would be open to authorities to consider joint committee and pension boards. This would be advantageous to smaller neighbouring authorities who may struggle to comply with any imposed requirement to have separate pension committees and pension boards due to a lack of number or resource and where other in-house services are already working as a shared service.

There are also circumstances where more than one fund is being managed in one authority. WMPF, for example, also manages the Integrated Transport Authority (ITA) Fund and we would welcome the ability to have one advisory board for both; the ITA being able to benefit from the more extensive knowledge offered by a larger advisory group of people. To include the S101 provision would allow for the delegation to be given to other authorities which would assist should joint pension boards be permissible.

Given the advisory nature of the board, there may be a need to call a meeting as a matter of urgency to provide advice on a matter considered at committee where the restrictions of S101 (five-day agenda delivery etc) would make the ability to take the decision unviable, or where a delay in the decision would cause detriment to the fund.

It would be the recommendation to the working party to respond to the consultation asking for the flexibility of not having the pension board as a S101 committee.

Question 2

The need for the ability to create a combined committee and pension board would depend on Government's response to the ability to create joint boards as one may extinguish the need for the other.

Commentators have suggested that the dual function and separate legal codes governing the two bodies would make the management of them a struggle should they be combined, and would appear to go against the purpose of reform in having more accountability in a fund that, in effect, would be self-scrutinising.

While a combined committee and pension board would seem advantageous in the management of resources (two committees can be quite resource heavy), consideration needs to be given to the two different roles of the pension board and the Scheme Manager, one being the decision maker and one being the advisor. The working party are recommended to keep in mind the reasoning behind the changes and the need to create more accountability, a self-regulating decision-making body might be considered to go against this.

Commentators consider there to be an advantage in keeping the two bodies separate given the specific requirement for proportionality and the membership on the pension board, a separate committee which gives the opportunity for other representatives to advise on (and therefore have some element of control over) decisions of the fund would further relationships and foster good working relationships between funds, members and employers.

It is suggested that this provision may be more suited to smaller funds where the ability to manage two committees is not viable either due to resource or due to the lack of numbers for committee membership.

It is the recommendation to the working party that WMPF respond to the consultation in favour of the ability to create joint committees.

Item For Decision

Does the working party agree that the pensions board not be a S101 committee?

Does the working party agree that the scheme manager committee (decision-making role) be separate from the Pensions Board (assist and advisory role)?

Does the working party agree that the regulations should provide for joint committees and pension boards?

Conflicts of Interest

As stated, the Scheme Manager has responsibility for ensuring that persons appointed to the Pensions Board have no conflicts of interest. Currently, it is unclear from the legislation whether those conflicts are actual or potential, and the working party are recommended to ask for clarity on this point in their response to the consultation.

It is anticipated that the restriction will apply to actual conflicts, where there is a direct impact only as the ability to manage potential conflicts may be unviable. Further, it is suggested that membership of a pension scheme does not exclude the person from sitting on the pension board and that this will be an exempted conflict.

When considering this point it raises the question as to the conduct of those persons sitting on the Scheme Manager committee and the pension board. The Localism Act 2011 changed the way local authorities deal with councillor conduct, each having their own code of conduct which is not enforceable upon officers. Each employer will also have their own employee code of conduct for officers when acting within the remit of their employment. Further, the role of sitting on the Scheme Manager Committee and Pensions Board will be entirely separate from any duty the person has in their role as councillor or officer, as they will be expected to consider only the duty owed to members and employers within the scheme.

It is suggested therefore that to further the provisions of the 2013 Act, persons appointed to the Scheme Manager Committee and the Pensions Board adhere to a separate code of conduct relevant for their duties and the responsibilities they will undertake while sitting in this role.

A draft code of conduct is attached for your consideration.

Item For Decision

Should persons appointed to the Scheme Manager Committee and the Pensions Board be subject to a separate code of conduct?

Terms of Reference

Having considered how the structure will look, the working party is now asked to consider the terms of reference for the Scheme Manager Committee and the pension board, including provisions as to remit, role, quorum, representation, frequency of meetings, etc.

As stated, the Scheme Manager may be a committee delegated under S101 of the Local Government Act 1972 much the same as it is currently, and the terms of reference will be defined in the legislation. Therefore, the question is asked: who should sit on the Scheme Manager Committee?

Before considering the question of numbers on the Scheme Manager Committee, the working party are asked to consider the requirements of the Pension Board first.

Pension Board – Terms of Reference

Under the Act, the Pension Board is required to consist of equal number of employer and member representatives. The Fund has over 270,000 members and over 490 employers and you will need to consider what is fair, equal and manageable when determining the make-up of the board.

Currently within the Fund, we have five categories of employers:

- 1) Local authorities
- 2) Academies
- 3) Universities
- 4) Voluntary organisations
- 5) Contractors

It is suggested that a representative from each category is nominated to sit on the Pension Board making the ratio 5:5. This would require us to have five member representatives also. It is suggested that the terms under the Act do not restrict this to mean actual members, but to include trade unions as member representatives also.

Under the Act, neither employer or member representatives can be elected councillors and, therefore, there is a risk that the skills and knowledge accrued by trustees over the years will be lost. However, they will still be able to sit on the Scheme Manager Committee, and the advantage to be gained comes in having qualified officers sit as advisors to the trustees taking the decisions.

Given the provision under the Act and the ability to appoint "others" to the pension board, it is further proposed to appoint 2 elected councillors from Wolverhampton City Council on to the board also (Wolverhampton would be excluded from appointing a member or employer representative on the board if this was approved).

In considering this, the number of persons appointed to the Pensions Board would total 12, plus the provisions for substitutes.

In considering this, the working party are asked to consider the make-up of the Scheme Manager Committee in conjunction with the Fund's ability to resource, fund and train those appointed in addition to those appointed to the Pension Board.

The Scheme Manager Committee – Terms of Reference

In consideration of the representation on the Pension Board, it is proposed to reduce the number of Wolverhampton elected councillors on the Scheme Manager Committee and instead have eight representatives plus one from each of the district authorities together with four trade union members.

This would make the total number of persons appointed to both groups 28, plus substitutes and as officers we feel this is a manageable number when considering the resources and training required of the two groups. Any additional numbers might increase the resource required and therefore may increase the Fund's administration costs which would need to be borne by the contributing authorities.

In considering these decisions, draft terms of reference for each group are attached for your consideration.

Item For Decision

Does the working party agree that the Pension Board consist of a ratio of 5:5 member and employer representatives with two elected councillors from WCC?

Does the working party agree that the scheme manager committee consist of eight WCC elected councillors, one elected councillor from each district council and four trade union members?

Other Matters

As well as seeking clarification on points relevant to the Fund's governance structures, the draft regulations also seek consultation on a number of other points which the working party are asked to consider.

Funding of the Scheme Advisory Board

As discussed in the June Committee report, the Secretary of State is to be advised by his own pension board, the Scheme Advisory Board. Currently, this is in shadow form.

Under the Act, the Scheme Advisory Board has no decision-making powers and acts to advise the Secretary of State only. However, unlike local pension boards, the Secretary of State is not required to adhere to the advice of the Scheme Advisory Board.

The consultation from Government seeks opinion on whether funding for the Scheme Advisory Board should be recovered from pension schemes, and the working party are asked to consider the implications of this.

It is suggested that while the Scheme Advisory Board is beneficial to pension schemes, funding should only be provided where such furthers the improvement of LGPS schemes. The working party are also asked to consider what form such funding should take, whether a flat fee or a proportionate fee relative to the size of the fund is preferred.

Item For Decision

Should local schemes fund the Scheme Advisory Board?

Annual General Meetings, Employer Forums, etc

A further question asked by the consultation is whether the regulations should provide a legal requirement on schemes to provide AGMs or employer forums.

As you are aware, as a matter of good practice, WMPF hold annual and mid-year reviews inviting employers from across our Fund which have been successful and well attended. The Fund also takes a proactive approach to informing our members, highlighting issues to them through such mediums as roadshows and employer events which are supported by a newsletter and various briefs on the Fund's website.

The working party are asked to consider the ability of the Fund to manage, resource and indeed fund an AGM such as that proposed. With over 270,000 members, if even 1% of those attend would require a significant amount of resource and cost which the Fund would have to seek to recover from the employers as part of their administering contributions. In a time when budgets are tight and challenges to contributions are growing, the working party may not consider this requirement to be in the interest of the Fund or its members.

Consideration would need to be given to the differing size of pension funds, some have only one authority employer and, therefore, to hold an annual meeting for itself may be considered overly burdensome. It is suggested that this requirement should be considered best practice in fostering relationships rather than a legal requirement, as there is always a risk that no employers attend an arranged meeting.

Further, given the representation of employers on the Pension Board, it is hoped that any concerns or information will be relayed back to the employers through their representatives on the board or through such established mediums as employer/employee peer groups.

Item For Decision

Should the regulations impose a legal requirement on funds to hold AGMs/employer forums?

Public Sector Equality Duty

As you are aware, bodies performing a public function are bound to comply with the Public Service Equality Duty as set out in section 149 of the Equality Act 2010.

Government are seeking clarification as to whether funds believe this duty should extend to pension boards also and, at first consideration, it would seem common sense that the board would have to fall within the PSED given the public service nature of the role and the fact that a significant amount of matters to be considered may potentially affect one particular group with protected characteristics.

However, it would be for the Scheme Manager Committee (as decision makers) to consider the advice of the board in line with their other duties and, as a committee of a local authority, one of those duties would be the public sector equality duty. Therefore, the impact of any advice provided by the board to a group of persons with protected characteristics would be managed by the committee who are obliged to consider any such impact.

Item For Decision

Should the Pensions Board be required to comply with the Public Sector Equality Duty?

Knowledge and Understanding

Finally, Government in their consultation are also seeking comments on the requirement for Scheme Manager Committees to have the same knowledge and understanding requirement imposed on pension board members.

In considering the two roles, the Pension Committee will be the decision-making body, the pension board, the advisor, the working party are asked to consider the implications of having a decision-making body which are not required to have the knowledge and understanding of the implications of their decisions.

Item For Decision

Should persons appointed to the Scheme Manager Committee be required to have the same legal requirement as pension board members in having the knowledge and understanding relevant to fulfil their duties?



Committee Code of Conduct for the West Midlands Pension Fund

This code applies to all persons nominated to the Pension Committee (including its sub-committees) and the Pension Board (together Committees) in consideration of the principles set out in the Public Service Pensions Act 2013 and the Codes of Practice issued by the Pensions Regulator.

The Code of Conduct is intended to promote high standards of behaviour amongst those appointed to the committees and is underpinned by the seven principles of public life adopted by the administering authority for its own elected members. These should be borne in mind when interpreting the meaning of the Code.

i) **Selflessness**

Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

ii) **Integrity**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

iii) **Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

iv) **Accountability**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

v) **Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

vi) **Honesty**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

vii) **Leadership**

Holders of public office should promote and support these principles by leadership and example.

PART ONE

1.0 General Provisions

- 1.1 This Code applies to you as a person appointed to the Committees of the West Midlands Pension Fund (The Fund).
- 1.2 It is your responsibility to comply with the provisions of the Code and ensure all obligations are met.
- 1.3 In this Code “**Meeting**” means any meeting of any of the committees within the Fund, any external meeting at which you are a representative of the Fund and any meeting where your behaviour may be a perceived as a reflection on the Fund.

2.0 Scope

- 2.1 You must comply with this Code whenever you are conducting the business of the Fund or acting in the capacity of a person appointed to a committee of the Fund.

3.0 Respect

3.1 **You must treat others with respect.**

It is the collective responsibility of all persons appointed to the committees of the Fund to create a fair, safe and enjoyable environment for members, employers and officers which is free from discrimination, intimidation and abuse.

3.2 **You must not:**

- 3.2.1 do anything which may cause the Fund to breach the Equality Act 2010;
- 3.2.2 bully any person;
- 3.2.3 intimidate or attempt to intimidate any person;
- 3.2.4 do anything which compromises or is likely to compromise the impartiality of those who work for, or on behalf of, the Fund.

4.0 Confidentiality

- 4.1 You must not disclose information given to you in confidence by anyone, or information acquired by you which you believe, or ought reasonably to be aware, is of a confidential nature, except where:
 - 4.1.1 you have the consent of a person authorised to give it;
 - 4.1.2 you are required by law to do so;
 - 4.1.3 the disclosure is made to a third party for the purpose of obtaining professional advice provided that the third party agrees not to disclose the information to any other person; or

4.1.4 the disclosure is:

- (aa) reasonable and in the public interest; and
- (bb) made in good faith and in compliance with the reasonable requirements of the Authority.

Any assessment as to (aa) or (bb) above shall be conducted with the Director of Pensions and no decision as to the release of information under these two provision shall be taken until the Director of Pensions has given her agreement to its release.

4.2 You must not prevent another person from gaining access to information to which that person is entitled by law.

5.0 You must not

- 5.1 Conduct yourself in a manner which could reasonably be regarded as bringing the Fund into disrepute.
- 5.2 Place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.
- 5.3 Use or attempt to use your position as a person appointed to improperly confer on, or secure for yourself or any other person, an advantage or disadvantage including providing or offering to provide information as to the Fund's business/transactions or investment or a reference for any candidate for employment or promotion.
- 5.4 Use or allow to be used Fund resources improperly for political purposes (including party political purposes) and act in accordance with the Fund's reasonable requirements.

6.0 You must

- 6.1 When reaching decisions on any matter have regard to any relevant advice provided to you by:
 - 6.1.1 Officers of the Fund
 - 6.1.2 Officers of the administering authority, (where that officer is acting pursuant to his or her statutory duties).
 - 6.1.3 The Pension Board or other committees within the fund
 - 6.1.4 Any third party appointed by the Fund to provide specialist advice
- 6.2 Give reasons for all decisions in accordance with any statutory requirements and any reasonable additional requirements imposed.
- 6.3 Make all choices, such as making appointments, awarding contracts or recommending individuals for rewards or benefits, on individual and independent merit.
- 6.4 Make all decisions in relations to investments and the financial management of the Fund objectively, in a fair business-like manner with reasonable care skill and caution and with reasonable alert to the interest of members of the Fund.
- 6.4 Be as open as possible about your decisions and actions and the decisions and actions of the Fund, and should be prepared to give reasons for those decisions and actions, notwithstanding your other obligations under this Code.

7.0 Accountability

7.1 You are accountable to the members for your decisions and you must co-operate fully with whatever scrutiny is appropriate to your appointment.

PART TWO - CONFLICT OF INTERESTS

Under Section 5 of the Act the Scheme Manager must be satisfied that persons appointed to the Pensions Board do not have a conflict of interest in matters to be considered.

The Pensions Committee as Scheme Manager has taken this one step further and requires all persons appointed to any committee of the Fund to declare any interest which amounts to a conflict of interest in a matter to be discussed. The responsibility for ensuring this compliance has been delegated to the Head of Governance.

8.0 Declaring Interests

- 8.1 Subject to paragraph 8.6 (sensitive interests) you must within 28 days of
 - i) this Code being adopted or
 - ii) your appointment to a committee (where that is later) or
 - iii) an interest becoming known to you notify the Fund's Head of Governance of any matter which may, during the course of your appointment, cause or create a conflict of interest.
- 8.2 Interests which may constitute a conflict include interests of yours, your spouse, a family member or close associate and are usually financial interests, business interests or personal interests which may create bias.
- 8.3 Where such an interest exists and you have not previously notified the Head of Governance, you are required to announce it at the meeting where the conflict arises.
- 8.4 The Head of Governance will retain an interests register.
- 8.5 Where you have an interest which may give rise to a conflict you must not remain in the meeting or participate in the discussions on the matter on which you hold that interest.
- 8.6 Sensitive interests are interests which, if disclosed, could lead to the person appointed being subject to violence or intimidation. Sensitive interests will never be made public and the person appointed is not required to declare the nature of the interest at a public meeting, but merely that the interest exists and could give rise to a conflict.



Recommendations of the Working Party

Question	Options	Recommendation	Decision
Does the working party agree that the Scheme Manager role should not be divided with one Pensions Committee taking on the whole Scheme Manager function?	To divide the administration and management function of the Scheme Manager into two committees each advised by a Pensions Board	To not divide the function	
Does the working party agree to continue with the Sub-Committee in the new structure?	To have all decisions taken by the Scheme Manager Committee or to have some specific areas delegated to sub-committees	To continue with sub-committees	
Does the working party agree that the Pensions Board not be a S101 Committee?	To have S101 of the Local Government Act 1972 apply to the Pensions Board with the provisions for voting, formation, etc, or to have flexibility in determining our own terms of reference	To have flexibility to determine our own terms of reference for the Pensions Board	
Does the working party agree that the Scheme Manager Committee (decision-making role) be separate from the Pensions Board (assist and advisory role)?	To combine the Scheme Manager Committee with the Pensions Board or to keep them separate in recognition of their different functions	To keep them separate	
Does the working party agree that the regulations should provide for joint committees and pension boards	To have the ability to join with smaller funds in sharing knowledge and resource or to prevent joint committees and boards with each authority responsible for its own governance	To allow for joint committees and boards	
Should persons appointed to the Scheme Manager Committee and the Pensions Board be subject to a separate code of conduct?	To have elected councillors subject to their own differing codes of conduct together with employee representatives subject to their own codes of conduct or to have and the risk of having members not subject to any or to have an overall code which binds all persons appointed	To have an overall code	

Question	Options	Recommendation	Decision
Does the working party agree that the Pension Board consist of a ratio of 5:5 member and employer representatives with two elected councillors from Wolverhampton City Council?	To have more or less representation on the Pension Board in consideration of the requirement to have equal representation.	To have a ratio of 5:5 and appoint two elected councillors as 'other' representatives.	
Does the working party agree that the Scheme Manager Committee consist of eight Wolverhampton City Council elected councillors, one elected councillor from each district council and four trade union members?	To have a committee compliant with S101	To have a committee consisting of eight Wolverhampton City Council elected councillors, one elected councillor from each district and four trade union members making the administration and resourcing of the committee compatible with what we have currently	
Should local schemes fund the Scheme Advisory Board?	Yes or No	To assist in the furtherance of LGPS aims	
Should the regulations impose a legal requirement on funds to hold AGMs/ employer forums?	Yes or No	No, due to the potential increase in resource and wasted costs	
Should the Pensions Board be required to comply with the Public Sector Equality Duty?	Yes or No	In consideration of the board's remit: no.	
Should persons appointed to the Scheme Manager Committee be required to have the same legal requirement as Pension Board members in having the knowledge and understanding relevant to fulfil their duties?	Yes or No	In consideration of their decision-making role: yes.	

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GOVERNANCE REVIEW WORKING PARTY

3 SEPTEMBER 2014

PENSION BOARD

As mentioned at the last meeting of the working party, the Pension Board's role will be to advise and assist the pensions committee in its adherence to the legislation and statutory guidance. How that advice and assistance is provided is not yet clear and we welcome the thoughts of the working party to consider how this might work in practice.

To assist, we have noted some points for consideration which will formulate the board's terms of reference.

CODE OF CONDUCT

As discussed at the last meeting, elected councillors are subject to their own authority's code of conduct which means there may be discrepancy across the committee where councillors from different authorities are adhering to different codes, although all grounded in the same principles. Similarly, those persons appointed to the pension board will be officers from different employers with their own employee code of conduct and some member representatives who have no code at all. Therefore it was proposed and agreed at the last working party that persons appointed to the board adhere to the Fund's code of conduct.

FORMAL OCCASIONS

While the board is not a S101 committee, it is still a statutory committee with influence over the decisions of the fund. Therefore it is considered best practice, and sensible, to call meetings of the board on a formal basis with notifications, agendas and where minutes of the meetings should be recorded. It is also proposed that the meeting follow the administrative authority's standing orders for council meetings where such relate to rules of debate, motions, etc.

MEETINGS

In consideration of the role of the Pension Board, the working party is asked to consider the frequency with which it should meet. When drafting terms of reference it is better to provide a minimum which can be increased as need arises, rather than a definitive number which may not be required or may not be adhered to due to calendar conflicts. (It is proposed that the pensions committee meet a minimum of twice yearly to consider the business of the Fund.)

It is therefore proposed that the terms of reference for the pension board state that it meets a minimum of twice yearly.

Given the minimum requirement of two meetings per year it is proposed that meetings of the pension board will be called on a bi-annual basis with the first meeting in the first quarter of the year and the second meeting in the third quarter. The ability to call additional meetings rests with the board should they feel a matter is of particular importance or believe the committee need to be aware of certain matters when taking decisions. Given the complexities of diary management it is proposed that additional meetings of the pension board will only be called when a minimum of 7 persons have requested and confirmed a date to the Fund. This is to ensure a balanced view on the matter to be discussed ensuring that the majority of opinion has been sought and not just one view given the 5:5 ratio of persons on the board. The quorum of the board will also be 7.

As the working party may be aware, elected councillors have certain rights of access to information and documents considered by their council. It is proposed that these rights be extended to persons appointed to the pension board in relation to papers and documents considered by the pension committee. Therefore on issuance of the agenda and papers to pension committee 5 days before the meeting, the pension board will also be entitled to a set of papers for review. Where a matter is confidential the papers will be available within 24 hours of the meeting having been conducted. This is standard practice for all confidential matters of council and is set out in legislation with the aim to control the release of confidential information.

MEMBERSHIP

The working party has agreed that the ratio of the board should be 5:5 with 2 elected councillors drawn from the current pensions committee with the employer and member representatives holding the majority.

It is proposed that where substitutes are requested to attend that the process for substitutions follows that of the administering authority as set out in the constitution, requiring formal notice with a minimum time for nominations. This is to ensure that papers can be circulated and time given to the substitution to read and understand the information.

TERM OF OFFICE

It is acknowledged that the role of the pension board is new and that within the first 12 months it will be a 'moving beast' as it settles into the new structure and its role (which may be developed throughout the first year). Therefore the Fund believes it is important to ensure consistency of knowledge for the first two years at least. It is also acknowledged that it would not be good practice to instigate a full re-nomination of the board's membership all in one go. Therefore it is proposed that nominations to the board be sought on a rotational basis with one third nominations in year 2, one third in year 4 and so on. It is also proposed that the term of office of persons appointed to the board be for a minimum of 1 year and a maximum of 8. This ensures consistency of knowledge without complacency.

ATTENDANCE

The role of the pension board is important to the due diligence of the fund and persons appointed to the board are expected to afford the role the respect that comes with that. It is also a statutory requirement that persons appointed to the board have the knowledge and understanding of their decisions.

In consideration of these factors it is proposed to include in the board's terms of reference a requirement that those persons appointed to the board who fail to attend 3 events (to include meetings and training) will be removed by majority decision of the board and a new nomination sought from the nominating body.

ADVICE

It is accepted that the role of pension board is new and that persons appointed to it may not have the capacity and understanding in the first 12 months that they will gain over the course of their term of office. In recognising this, the Fund accepts that there may be occasions where external/independent advice may be required to assist the board in its role. The terms of reference should be drafted to include this provision and allow for such persons to attend meetings of the board to provide advice should the board feel it is appropriate.

CHAIRMAN

As with all good practice a meeting should be led by a Chair nominated on the first annual meeting of the board.

FUNCTION

As discussed, the role and remit of the pension board is to be finalised in regulations and guidance however we know that the role will be to advise and assist the pensions committee in its adherence to the legislation and guidance, therefore it goes without saying that where the board believes the committee to be acting contrary to those principles it should inform the committee as appropriate and recommend it review the consideration of the board on matters of due diligence.

The board will also be available to the pensions committee as a first stage consultation panel should the pension committee feel it is appropriate and necessary and therefore there may be occasions where the pension committee requests a meeting of the board in addition to its minimum.

There is a statutory requirement on the board to adhere to codes of practice and guidance issued by the Pensions Regulator.

INFORMATION

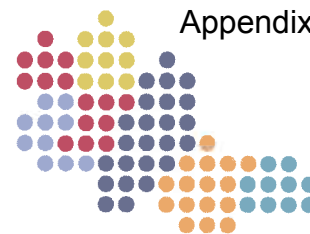
In adhering to the fund's electronic business model and in compliance with the Fund's aims to be open and transparent, the minutes of the pension board meetings should be available on the Fund's website the same as the minutes of pension committee, subject to any confidential or exempt matters.

The terms of reference and membership will also be published in compliance with the Pension Act requirements.

TERMS OF REFERENCE

In consideration of these points the Fund has drafted Terms of Reference for the pension board which are attached as Appendix One. The working party are asked to consider the points raised in this note and note any further points they believe should be included or considered by the working party.

We would ask that any additional points the group believes should be included or considered be presented to the Head of Governance by Friday 29 August to enable time for circulation to the group in readiness for the meeting.



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To the Department for Communities and Local Government

LGPS Governance Regulations 2014

Combined Section 101 committee and local pension board – Regulation 106(2)

For clarity, we understand combined boards to be combined pension committee and pension board in the same authority. Joint boards to be where more than one authority joins together to form one pension board/committee.

WMPF agree with commentators that the dual function and separate legal codes governing the two bodies would make the management of them a struggle and while a combined committee and pension board would seem advantageous in the management of resources (two committees can be quite resource heavy) consideration needs to be given to the two different roles of the pension board and the scheme manager, one being the decision maker and one being the advisor. WMPF would keep in mind the reasoning behind the changes and the need to create more accountability, a self-advising decision making body might be considered to go against this. Further it is the Administering Authority who are responsible for the Fund and hold its liabilities, therefore it would seem appropriate to allow them a majority decision on a separate Pensions Committee which they would not achieve on an equally represented Pension Board.

WMPF considers there to be an advantage in keeping the two bodies separate given the specific requirement for proportionality and the membership on the Pension Board, a separate committee which gives the opportunity for other representatives to advise on (and therefore have some element of control over) decisions of the fund would further relationships and foster good working relationships between funds, members and employers.

WMPF believe that this provision may be more suited to smaller funds where the ability to manage two committees is not viable either due to resource or due to the lack of numbers for committee membership but is not something we feel would assist WMPF.

Our consideration of joint pension boards is discussed below.

Establishment of local pension boards Regulation 106(5)

While a S101 requirement for the Board would seem advantageous, it may be considered overly burdensome and restrictive in consideration of the role of the pension board as an advisory and not decision making body.

Local Government Authorities are used to working to the S101 committee style and WMPF would consider the same principles under S101 when considering the terms of reference for the pension board even if this was not included in the final regulations. However, flexibility would be useful which may allow for shorter notice of meetings.

To include the S101 provision would allow for the delegation to be given to other authorities which would assist smaller funds with resourcing should combined/joint pension boards not be provided for in the final Regulations.

The ability to resource a separate Board for a small fund with two employers (especially given the knowledge and understanding requirement for the board members) appears potentially burdensome.

Should the S101 provision apply it would be open to authorities to consider joint committee and shared pension boards. This would be advantageous to smaller neighbouring authorities who may struggle to comply with any imposed requirement to have separate pension committees and pension boards due to a lack of number or resource and where other in-house services are already working as a shared service.

There are also circumstances where more than one Fund is being managed in one Authority. WMPF for example, also manages the Integrated Transport Authority (ITA) Fund and we would welcome the ability to have joint working for both funds. The ITA being able to benefit from the more extensive knowledge offered by a larger group of people.

Given the advisory nature of the Board there may be a need to call a meeting as a matter of urgency to provide advice on a matter considered at Committee where the restrictions of S101 (5 day agenda delivery etc) would make the ability to take the decision unviable, or where a delay in the decision would cause detriment to the Fund.

Those items to be specifically included in a wider discretion will have to come in the remit of the Board which falls to each Authority to determine. It is our understanding that no decision making authority will fall within the Board's remit however greater clarity on their remit and reporting powers is welcomed.

The flexibility offered by option 2 however is preferred and we would instead welcome draft terms of reference from the Regulator as to what should be included in the remit of the pension board.

Pension Board membership

In considering the make-up of the pension board, WMPF already have an advisory body consisting of trade union representatives. The need for the pension board to be proportionate with an equal number of employer and member representatives is a provision welcomed by the Fund to further the remit of our existing advisory board which has been beneficial to the Funds work.

The inability for elected members to act as employer/member representatives is not an issue for WMPF as we are a large enough fund to draw representatives from our member and employer groups. We welcome the ability to appoint elected councillors as 'others' however given the new role of pensions boards we feel there is a benefit to be gained in appointing existing pension committee members to the pension board to support newly appointed persons.

However, in not allowing elected members to act as employer representatives, it will fall to officers to attend on their body's behalf. Given the knowledge and understanding requirement of board members it is likely that those nominated to the board will be persons holding a relevant position in their body, Legal, Finance, HR/payroll officers. There is a risk of conflict in these situations and greater clarity on how the scheme manager manages this would be welcomed.

Funding of the Scheme Advisory Board

The Scheme Advisory Board is supported as a provision of the legislation where a fixed or banding fee is proposed and where such fee is not proportionate to actual Fund size. Clarity as to what the fee is for is also requested, we would support the fee where it is used to improve the LGPS and expect members to have an opportunity to comment on the Board's budgetary plans on which the fee is levied.

We would not support a remuneration for the Scheme Advisory Board members.

Annual General Meetings, Employer Forums, etc

As a matter of good practice WMPF hold an AGM and mid-year review inviting employers from across our Fund together with trade union representatives who sit on our Joint Consultative Panel which have been successful and well attended.

The reviews offer an insight into the work of Fund including annual performance information and offer opportunities for questions to be raised. WMPF would continue to deliver these events irrespective of whether they become a statutory requirement.

The Fund also takes a proactive approach to informing our members and highlighting issues to them through such mediums as roadshows, member surgeries and employer events which are supported by a newsletter and various briefs on the Fund's website.

We question the ability of the Fund to manage, resource and indeed fund an AGM such as that proposed. With over 270,000 members if even 1% of those attend would require a significant amount of resource and cost which the Fund would have to seek to recover from the employers as part of their administering contributions. In a time when budgets are tight and challenges to contributions are growing WMPF does not believe this requirement to be in the interest of the Fund or its members. Indeed WMPF already holds several directed events for both members and employer organisations as discussed above.

Consideration would need to be given to the differing size of pension funds, some have only one authority employer and therefore to hold an annual meeting for itself may be considered overly burdensome. It is suggested that this requirement should be considered best practice in fostering relationships rather than a mandatory requirement as there is always a risk that no employers attend an arranged meeting. A requirement to have at least annual communications rather than meetings would be more supportable.

Further, given the representation of employers and members on the pension board it is expected that any concerns or information will be relayed back to the employers/members through their representatives on the board or through such established mediums as Employer/Employee Peer Groups/events/newsletters.

Public Sector Equality Duty

WMPF believe the Board to be undertaking a public duty in advising and assisting with decisions that impact on individuals. As a Board of a public authority, it would seem logical that it should adhere to the Public Sector Equality Duty.

Further, as the remit of the Board is be a conscience to the decisions taken, part of that should be to advise on the overall impact of those decisions and the considerations the decision maker needs to take into account when determining outcomes.

We would support a requirement for the Board to be subject to the Equality Duty.

Knowledge and Understanding

WMPF would agree with a requirement for persons appointed to pensions committees to be bound by the same knowledge and understanding requirement as those appointed to the pension board.

In considering the two roles, the pension committee will be the decision making body, the pension board the advising body, it would appear to be counter-productive to have a decision making body not required to have the knowledge and understanding of the implications of their decisions.

What is unclear is the extent of that knowledge. As discussed above it is likely, although not definite, that persons nominated by the employer body to sit on the pensions board will be officers in positions relevant to the subject area. Legal, finance, HR officers and therefore their knowledge and understanding might be quite high although may need tuning to pension specific matters. Compare this to a member representative who has no experience in these areas, what would be comparable? Is it an ability to learn throughout the course of their appointment on the board? To find a member representative who understands the implications of their decisions at the outset would be extremely difficult, especially if those representatives cannot be trade union members.

Clarity is required on what constitutes capacity and experience and we would expect that to draw a comparative between ability to learn and having a ground level to start from.

Questions for clarity

In addition to those questions raised by the consultation, WMPF also request clarity on the following questions

1. Are Trade Union representatives sufficient to meet the employee representative requirement on the pension board or does government anticipate that these be actual employees?

WMPF would support a mixture of both given the knowledge and understanding requirement. Further the Shadow Scheme Advisory Board consists of Trade Union representatives as employee representative and Trade Unions pride themselves on representing the whole workforce not just their members.

2. Are conflicts only relevant where they are actual or potential? Is membership of a pension scheme with your employer an exempted conflict?

WMPF believe potential conflicts would be difficult to manage and would suggest that unless a representative's interest is an actual conflict with a direct impact on or resulting from the business being transacted, other matters should be governed under the rules of bias.

Yours sincerely



Geik Drever
Director of Pensions

WEST MIDLANDS PENSION FUND

PENSIONS COMMITTEE

TERMS OF REFERENCE

The Council's financial procedure rules, contract procedure rules and internal financial limits concerning procurement do not relate to the Pensions Committee who, by delegation from Council and Cabinet, have authority to enter into contracts, procure services, purchase goods and manage financial investment through the internal controls of the West Midlands Pension Fund and in compliance with all applicable legislation.

Any reference within the Council's constitution that refers to Council or Cabinet and includes powers relevant to the work of the Pensions Committee should be read to include Pensions Committee.

The Pensions Committee shall adhere to the Standing Orders of Wolverhampton City Council and all matters of due process so far as they do not conflict with the preceding delegation.

1.0 Pensions Committee as Scheme Manager

Under Section 4 of the Public Service Pensions Act 2013 the Scheme Manager for the Administering Authority shall be the Pensions Committee.

The Administering Authority shall at Full Council every year approve the delegation of the function of Scheme Manager under Section 101 of the Local Government Act 1972 to the Pensions Committee and appoint representatives to sit on the Committee for that year.

1.2 Membership

The membership of the Pensions Committee shall consist of 8 Wolverhampton City Council members, 1 Elected Member from each of the 6 District Councils and 4 trade union representatives.

The quorum is 9

A substitution for any persons appointed to the Pensions Committee shall follow the Council's procedure.

The term of office for a person appointed to the Committee shall be for a period no shorter than one year and no longer than eight years or their term of office (where the person is an elected Councillor, whichever is the shortest). Nomination to the committee shall take a 4 year rotation with one third nominations received in year 1 and one third nominations received in year 3, and so on. This is to ensure a consistency of knowledge within the committee and to assist with the development of knowledge and experience.

Should an elected Councillor no longer be a member of their authority, their appointment on the Committee shall cease and a further nomination will be sought from that authority.

The Committee shall meet a minimum of twice yearly

All persons appointed to the Committee will adhere to the Committee's Code of Conduct.

In compliance with the legislative requirements of knowledge and understanding, person's appointed to the Committee are expected to make themselves available to attend committee meetings. Person's appointed who fail to attend 3 or more events (to include committees and training) will be asked to leave the committee and a replacement sought from their nominating body unless there are exceptional reasons for their failure to attend. Such reasons to be considered by the committee.

At least once a year the Committee will report to Full Council on the business it has conducted.

1.3 Chairing the Committee

It will be the first business of the Committee at its annual review to nominate a Chair who will sit for the term of one year.

In the event of a tie of votes of any business to be conducted, the Chair will have the casting vote. In circumstances where the vote is to appoint a new Chairman, the outgoing Chair will have the casting vote in the event of a tie.

1.4 Functions

The Pensions Committee shall perform those functions of Wolverhampton City Council which are required to be performed by it in its role as Administering Authority for the Local Government Pension Scheme under the Public Service Pensions Act 2013 (and any associated legislation) adhering to the principles required by the Code of Practice issued by the Pensions Regulator.

The Pensions Committee may call upon the pension board to seek advice on matters to be discussed at the committee meeting. Where such advice is sought it must be considered as part of the decision making process.

1.5 Terms of Reference

To act as the Scheme Manager for the Administering Authority in the management and administration of the local government pension scheme for the West Midlands.

To adhere to the principles set out in the Codes of Practice issued by the Pensions Regulator and undertake its duties in compliance with the obligations imposed on it.

To provide independent assurance to members of the fund of the adequacy of the risk management framework and the associated control environment, responsible for the fund's financial and non-financial performance to the extent that it affects the fund's exposure to risk.

To administer all aspects of the West Midlands Pension Fund on behalf of Wolverhampton City Council.

To exercise all the general powers and duties of the Council granted to the Cabinet and Cabinet Panels and Regulatory or other Committees provided that those parts of the Council's Financial Procedure Rules and Contracts Procedure Rules which relate to the acquisition and disposal of land. Fund Investment transactions, custody of assets, appointment of advisors, approval of expenditure and their related activities, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Pension Fund.

To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

To communicate with members of the fund keeping accurate records and publishing information as required about the fund and its work.

1.6 Training

In compliance with the requirements of the Public Service Pensions Act 2013 persons appointed to the Committee shall undertake at least 3 training sessions per year. The first training session will be organised within 28 days of their appointment to the Committee with subsequent training scheduled after 3 months of appointment and after 9 months of appointment.

2.0 Sub-Committee

Under Section 101 the Pensions Committee has delegated responsibility for Investments to the Investment Advisory Sub-Committee.

All persons appointed to the Sub-Committee will adhere to the Committee's Code of Conduct.

2.1 Membership

The membership of the Sub-Committee shall be drawn from the Pensions Committee in proportionate numbers

The quorum shall be 5

A substitute for any persons appointed to the Sub Committee shall follow the Administering Authority's procedure.

The Sub Committee shall meet a minimum of twice yearly

In compliance with the legislative requirements of knowledge and understanding, person's appointed to the Committee are expected to make themselves available to attend committee meetings. Person's appointed who fail to attend 3 or more events (to include committees and training) will be asked to leave the committee and a replacement sought from their nominating body unless there are exceptional reasons for their failure to attend. Such reasons to be considered by the committee.

2.2 Chair

The Chair of the Sub-Committee shall be appointed at the annual review meeting of the Pensions Committee from nominations received and shall sit as Chair for the period of one year.

In the event of a tie of votes of any business to be conducted, the Chair will have the casting vote. In circumstances where the vote is to appoint a new Chairman, the outgoing Chair will have the casting vote in the event of a tie.

2.3 Function

The function of the Sub Committee shall be 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.
- To monitor investment activity and the performance of the Fund.
- To oversee the administrative and investment management functions of the Pension Fund.

WEST MIDLANDS PENSION FUND

PENSION BOARD

TERMS OF REFERENCE

Under Section 5 of the Public Service Pensions Act 2013 the Pensions Committee is to be assisted by the Pensions Board.

All persons appointed to the Board will adhere to the Committee's Code of Conduct and undertake training as required to ensure they meet the legislative requirement to have the knowledge and understanding required of them to undertake their role.

While not a formal committee of Council, meetings of the pension board will be formal occasions to be minuted adhering to the due process and rules of procedure so far as such do not make the business of the board unviable. Business to be conducted by the Pension Board shall be noted on a formal Agenda at least five working days in advance of the meeting. Additional business may be added to the Agenda at a later date with the consent of the Chair. Business not noted on the Agenda may only be considered at the meeting if agreed by majority vote. This is to ensure all information is available and has been read and understood by pension board members.

The Pensions Board shall meet a minimum of twice yearly on a bi-annual basis. The ability to call additional meetings rests with the board and with pensions committee, such additional meetings to meet the minimum quorum requirement.

Persons appointed to the pensions board have the same right of access to information and documents to be considered as elected members as outlined in the The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 and The Openness of Local Government Bodies Regulations 2014. Save as all other provisions of these regulations do not apply to the pension board.

1.0 Membership

The Pensions Board consists of 12 persons made up of 5 employer and 5 member representatives in equal proportion plus 2 Wolverhampton City Council Elected Members. The employer and member representatives will hold the majority.

The quorum is 7

Substitutions for the Pension Board shall be available by representative group not by individual board member. Substitutions will be sought as part of the appointing process. Where substitutions are required to attend the pension board meetings, formal notice of their attendance should be provided to the

Fund at least two working days in advance of the meeting to afford the opportunity of papers to be circulated and read.

The term of office for a person appointed to the Pension Board shall be for a period no shorter than one year and no longer than two rotations of nominations or their term of office (where the person is an elected Councillor, whichever is the shortest). Nomination to the Pension Board shall take a 4 year rotation with one third nominations received in year 2 and one third nominations received in year 4, and so on. Such rotation not to fall in the same year as Pension Committee rotation. This is to ensure a consistency of knowledge within the Pension Board and to assist with the development of knowledge and experience.

Nominations to the pensions board will be sought from the nominating body group on each occasion as the rotation for appointment arises. Where more than one nomination is received interviews for the vacant position will be held by the Director of Pensions, the Chair of Pensions Committee and one other.

Person's appointed to the Pensions Board are expected to make themselves available to attend meetings. Person's appointed who fail to attend 3 or more events (to include meetings and training) will be asked to leave the Board and a replacement sought from their nominating body unless there are exceptional reasons for their failure to attend. Such reasons to be considered by the pensions board.

Other than by ceasing to be eligible to sit on the pensions board (to include failure to attend meetings), a person appointed to the pensions board may only be removed from the position during their term of office by majority vote of the pensions board.

A person appointed to the pensions board may retire their position at any time. In such cases a nomination will be sought from their nominating body.

The pensions board may take the advice of persons not appointed to the board, such persons may attend meetings of the pension board upon invitation from the chair. The chair not to unreasonably withhold such invitation where requested to invite such persons by the board members.

2 Chairing the Board

It shall be the first business of the Board at its annual meeting to nominate a Chair and a Vice-Chair for that year

In the event of a tie of votes of any business to be conducted, the Chair will have the casting vote. In circumstances where the vote is to appoint a new Chairman, the outgoing Chair will have the casting vote in the event of a tie.

3 Function

The Pension Board's role is to conduct the duties imposed on it under Section 5 of the 2013 Act and associated legislation.

To adhere to the Codes of Practice issued by the Pension Regulator.

To assist the Pension Committee, as Scheme Manager, in securing compliance with the legislation relating to the governance of the fund.

Undertake any other duties imposed by the Pension Committee from time to time.

The Pension Board is not a decision making body.

The Pension Board is not a scrutiny function.

The Pension Board will be collectively and individually accountable to the Pensions Committee.

4 Information

Information relating to the work of the pension board (including any relevant minutes) will be published on the fund's website, save where such information is confidential or exempt under Schedule 12A.

Information detailing the pensions boards terms of reference shall be published on the fund's website together with the any vacancies as they arise.

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