



# Pensions Committee

## 18 March 2015

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

#### Conservative

Cllr Paul Singh  
Cllr Zahid Shah

#### Liberal Democrat

Cllr Michael Heap

#### District Members

Cllr Muhammad Afzal (Birmingham City Council)  
Cllr Rachel Harris (Dudley Metropolitan Borough Council)  
Cllr Damian Gannon (Coventry City Council)  
Cllr Steve Eling (Sandwell Metropolitan Borough Council)  
Cllr Alan Rebeiro (Solihull Metropolitan Borough Council)  
Cllr Mohammed 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 four Councillors.

### Information for the Public

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

**Contact** Dereck Francis  
**Tel/Email** Tel: 01902 555835 or dereck.francis@wolverhampton.gov.uk  
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Wolverhampton WV1 1RL

Copies of other agendas and reports are available from:

**Website** <http://wolverhampton.cmis.uk.com/decisionmaking>  
**Email** [democratic.support@wolverhampton.gov.uk](mailto:democratic.support@wolverhampton.gov.uk)  
**Tel** 01902 555043

[NOT PROTECTIVELY MARKED]

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

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

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# Agenda

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

- | <i>Item No.</i> | <i>Title</i>   |
|-----------------|--|
| 1               | <b>Apologies for absence (if any)</b>  |
| 2               | <b>Notification of substitute members (if any)</b>   |
| 3               | <b>Declarations of interests (if any)</b>  |
| 4               | <b>Minutes of the previous meetings</b> (Pages 5 - 16)<br><b>(a) Pensions Committee – 10 December 2014</b><br>[For approval]<br><br><b>(b) Investment Advisory Sub Committee – 10 December 2014</b><br>[For approval]                                  |
| 5               | <b>Matters arising</b><br>[To consider any matters arising from the minutes of the previous meetings]  |
| 6               | <b>Pension Administration report 1 October to 31 December 2014</b> (Pages 17 - 32)<br>[To report on the work undertaken by the Pensions Administration Services during the period 1 October 2014 – 31 December 2014]                                   |
| 7               | <b>Pension Administration Strategy</b> (Pages 33 - 48)<br>[To present a revised Pension Administration Strategy]   |
| 8               | <b>Funding update</b> (Pages 49 - 56)<br>[To provide an update on the funding position of the Fund since the 2013 actuarial valuation]   |
| 9               | <b>Service plan monitoring 2014/15 quarter three</b> (Pages 57 - 70)<br>[To update the Committee on performance against key performance indicators and the forecast outturn for the year against operating budgets as at the end of the third quarter] |
| 10              | <b>Service plan 2015- 2020</b> (Pages 71 - 104)<br>[To approve the Service Plan 2015-2020]   |
| 11              | <b>Compliance monitoring 1 October - 31 December 2014</b> (Pages 105 - 108)<br>[To provide Committee with the quarterly update on the compliance monitoring programme]   |
| 12              | <b>Pension Services - risk register review</b> (Pages 109 - 114)<br>[To note the Fund's risk register]   |

- 13        **Information Governance** (Pages 115 - 132)  
[To approve proposals relating to Information Governance]
- 14        **Trustee and Pensions Board member training** (Pages 133 - 148)  
[To consider information regarding Trustee's and Pension Board members' duties to undertake training and development and a proposal for how the Fund will deliver the training]
- 15        **Governance Reform 2014 - implementing the Pension Board** (Pages 149 - 160)  
[To approve arrangements associated with the implementation of the Pension Board]
- 16        **Governance Reform 2014, delegation of Integrated Transport Authority**  
(Pages 161 - 166)  
[To approve the final proposals of the governance reform after 1 April 2015 and accept the delegation from West Midlands Integrated Transport Authority (WMITA) to manage and administer the WMITA pension fund after June 2015]
- 17        **Fiduciary duty in the Local Government Pension Scheme - Counsel's opinion**  
(Pages 167 - 200)  
[To note the Council's opinion]
- 18        **Assurance Framework supporting the Annual Governance Statement March 2015** (Pages 201 - 212)  
[To note the updated assurance framework]
- 19        **Responsible investment activities October to December 2014** (Pages 213 - 228)  
[To report on the work undertaken by the Investment team regarding their responsible investment activities between the period 1 October to 31 December 2014]
- 20        **Ending of contracting out - Guaranteed Minimum Pension reconciliation**  
(Pages 229 - 231)  
[To receive detail of the activity underway to scope and understand the work involved in the reconciliation of GMP records held by HMRC and the associated risks of not completing this project]
- 21        **Advisers review** (Pages 233 - 238)  
[To note the status and review of advisory services received by the Fund]
- 22        **Local Government Pension Scheme 2014 update** (Pages 239 - 242)  
[To receive an update on the progress to date of the implementation of the LGPS 2014]



# Pensions Committee

## Minutes - 10 December 2014

### Attendance

#### Members of the Pensions Committee

Cllr Muhammad Afzal (Birmingham City Council)  
Cllr Mohammed Arif (Walsall MBC)  
Cllr Peter Bilson  
Cllr Ian Brookfield  
Malcolm Cantello (Trade Union Representatives)  
Cllr Val Evans  
Cllr Rachel Harris (Dudley MBC)  
Cllr Jasbir Jaspal  
Cllr Alan Rebeiro (Solihull MBC)  
Cllr Zahid Shah  
Cllr Paul Singh  
Cllr Tersaim Singh  
Cllr Bert Turner (Chair)

#### Trade Union observers

Malcolm Cantello (Unison)

#### Employees

Mark Chaloner	Assistant Director, Investments
Carl Craney	Democratic Support Officer
Geik Drever	Strategic Director - Pension Fund
Peter Farrow	Head of Audit
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Fund Accountant
Amanda MacDonald	Client Lead Auditor
Jennifer Pearce	Senior Auditor

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

*Item No.*    *Title*

- 1 Apologies for absence (if any)**  
Apologies for absence had been received from Cllr Steve Eling (Sandwell MBC), Cllr Damian Gannon (Coventry City Council), Cllr Mrs Sandra Samuels (Wolverhampton City Council), Martin Clift (UNITE), Victor Silvester (UNITE) and Ian Smith (UNITE).
- 2 Notification of Substitute Members (if any)**  
Cllr Sandra Hevican attended the meeting as a Substitute Member for Cllr Steve Eling (Sandwell MBC).

#### Chair's Announcement

The Chair, Cllr Bert Turner announced that the Fund had been awarded the Local Government Chronicle Investment Award, Skills and Knowledge category in

recognition of the exceptional training programme delivered to its Trustees. The award was on display at the meeting.

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

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

4 **Minutes**

(a) Pensions Committee – 24 September 2014

Resolved:

That the minutes of the Pensions Committee held on 24 September 2014 be confirmed as a correct record and signed by the Chair.

(b) Investment Advisory Sub Committee – 24 September 2014

Resolved:

That the minutes of the Investment Advisory Sub Committee held on 24 September 2014 be received and the acts, proceedings and recommendations contained therein be adopted subject to the following amendments made by the Investment Advisory Committee at its meeting held on 10 December 2014:

Minute No 10

- The deletion of “a) A decrease in the allocation to UK equities from 8% to 10% of assets” and the substitution therefor of “a) A decrease in the allocation to UK equities from 10% to 8% of assets”
- The deletion of “b) An increase in the allocation to global equities from 10% to 8%” and the substitution therefor of “b) An increase in the allocation to global equities from 8% to 10%”.

5 **Matters arising**

(a) Pensions Committee – 24 September 2014

There were no matters arising from the minutes of the Pensions Committee held on 24 September 2014.

(b) Investment Advisory Sub Committee – 24 September 2014

There were no matters arising from the minutes of the Investment Advisory Sub Committee held on 24 September 2014.

6 **Pensions administration report**

Geik Drever presented a report on the work undertaken by the Pensions Administration Services during the period 1 July 2014 – 30 September 2014.

With reference to Section 8 of the report (Write off policy decisions), Malcolm Cantello queried the difference between paragraphs 8.1 and 8.2. Geik Drever explained that the cases detailed in paragraph 8.2 related to historic issues.

With reference to paragraph 10.7.5, Cllr Alan Rebeiro questioned the reference to “appropriate advice”. Geik Drever explained that it would be the responsibility of the Fund to ensure that appropriate independent advice had been received either via the Citizens Advice Bureaux (CAB) or the Pensions Administration Service (TPAS) but it

would not be the role of the Fund to provide such advice. Government guidance on the exact role of the Fund was still awaited.

Resolved:

1. That the amendment to the write off policy as detailed in Section 8 of the report and the associated write-offs on that basis be approved;
2. that the applications approved by the Director of Pensions, the Chair and Vice Chair of the Pensions Committee for admission to the West Midlands Pension Fund as detailed in Section 6 of the report be noted;
3. That the pension administration activity of the Fund for the quarter ended 30 September 2014 be noted;
4. That the potential implications of the Freedom and Choice in Pensions on the Fund be noted;
5. That the potential implication of LGPS 2014 and mandatory projects upon resourcing levels be noted.

**7 Annual report and accounts 2013/14 - update**

Geik Drever presented a report which updated the Committee on the completion and publication of the Fund's annual report and accounts for 2013/14 including the addenda required by updated CIPFA guidance.

Resolved:

1. That the audit opinion on the annual report and statement of accounts being formally signed on 30 September 2014 and that this was an unqualified opinion be noted;
2. That the publication of the statement of accounts on 30 September 2014 in line with the statutory deadline and the publication of the annual report on 7 November 2014, ahead of the statutory deadline of 1 December 2014 be noted;
3. That the addendum to the annual report, as required by the updated CIPFA guidance, be noted.

**8 Internal Audit annual report**

Peter Farrow presented the annual Internal Audit Report 2013/14. He drew to the attention of the Committee that the Fund had received the highest ranked opinion it was possible to receive.

Resolved:

That the contents of the annual Internal Audit report 2013/14 be noted.

**9 Compliance monitoring**

Rachel Howe presented the quarterly update on the compliance monitoring programme ("the programme") which highlighted any issues that had arisen or had been identified.

Resolved:

That the report be received and noted as no compliance issues had arisen in the period.

**10 Service plan monitoring**

Geik Drever presented a report which updated the Committee on performance against key performance indicators (KPI's) and the forecast outturn for the year

against operating budgets as at the end of the second quarter. She reminded the Committee that the KPI's and operating budgets had been approved on 26 March 2014 as part of the Service Plan 2014 – 2019.

Cllr Mohammed Arif questioned the Miscellaneous Income. Geik Drever explained that this related to recharges and work undertaken for the Integrated Transport Authority (ITA) Pension Fund.

Resolved:

1. That the performance against the Fund's key performance indicators as at the end of the second quarter be noted;
2. That the forecast outturn against operating budgets as at the end of the second quarter, an underspend of £274,000 be noted.

11 **Local Government Pension Scheme (LGPS) 2014 - update**

Geik Drever presented a report which provided the Committee with an update on the progress to date of the implementation of the LGPS 2014.

Resolved:

- That the activity and progress to date of the implementation of the LGPS 2014 be noted.

12 **Active ownership activities - 1 July 2014 - 30 September 2014**

Mark Chaloner presented a report which informed the Committee of the work undertaken by the Investment team regarding their voting and engagement activities, collectively referred to as "active ownership" activities, between 1 June 2014 to 30 September 2014.

Cllr Ian Brookfield enquired whether the Investment Team simply followed the advice of Pensions Investment Research Company (PIRC) on voting matters. Mark Chaloner responded that the Fund had its own UK voting policy executed by PIRC on its behalf and that for overseas markets the Fund adopted the advice of PIRC within agreed parameters.

Resolved:

1. That the Fund's voting and Local Authority Pension Fund Forum's (LAPFF's) engagement activity for the three months ending 30 September 2014 (including Appendix 1) be noted;
2. That the issues discussed by the Local Authority Pension Fund Forum (LAPFF) in the Quarterly Engagement Report (available on the website: <http://www.lapfforum.org/Publications/engagement>) be noted.

13 **Strategic Investment Allocation Benchmark (SIAB) - review**

Mark Chaloner presented a report which reviewed a statement of investment beliefs and plans for the Fund's listed equities portfolio. Prior to the meeting, there had been trustee training from the Investments Team on the proposed changes for the listed equalities portfolio.

Mr Malcolm Cantello queried whether there was a cost associated with the creation of an Investment Strategy Panel. Mark Chaloner confirmed this to be the case but explained that the costs would be budgeted for.



Resolved:

1. That the statement of investment beliefs detailed in Appendix A to the report be approved;
2. That a decrease in the allocation to UK equities to 8% from 10% of assets and a corresponding increase in the allocation to global equities to 10% from 8% be approved;
3. That a move to fixed weight allocations within the overseas equities allocation (which remain at 30 %) with four 7.5% allocations to each of North America, Europe ex UK, Pacific / Japan (3.75% each) and emerging markets, as recommended by Hymans Robertson at the 24 September 2014 Investment Advisory Sub Committee be approved;
4. That the proposed timing for the planned changes to the listed equities portfolio and the proposed creation of an Investment Strategy Panel (ISP) be noted with a progress report to be submitted to the next meeting.

14

#### **Governance Reform 2014 - update**

Rachel Howe presented a report on the final proposals of the governance reform after 1 April 2015 for recommendation for adoption by Council. She reported that the final Regulations would not be received until 2015 but an assurance had been received from the Department for Communities and Local Government (DCLG) that the final Regulations would not be markedly different from those issued in draft form. The draft Policies would need to be compiled once the final Regulations had been received.

Mr Malcolm Cantello referred to Section 10.8.2 of the appendix to the report insofar as it referred to the composition of the quorum of the Pensions Board. Rachel Howe confirmed that the quorum would be set at seven members. Mr Malcolm Cantello queried whether this would include additional representatives from member representatives. Geik Drever confirmed this to be the case and referred the Committee to paragraph 10.8.2.7 and the requirement for persons appointed to make themselves available to attend meetings and that the failure to attend three or more events (to include meetings and training) would result in the member being asked to leave the Board and a replacement sought from the nominating body unless there were exceptional reasons for their failure to attend (with such reasons being considered by the Pensions Board).

Cllr Tersaim Singh enquired as to the responsibility for the undertaking of a scrutiny function. Rachel Howe explained that the Pensions Board would not have a scrutiny function and that in the absence of the final Regulations it was not possible to respond to the question. She advised that the Work Plan for the Pensions Board would be produced on a national basis. Geik Drever commented that the Fund was required to establish a Pensions Board and then to review how successfully it worked.

Cllr Phil Page enquired as to whether members of Wolverhampton City Council would be required to declare an interest at the Council meeting when the amendments to the City Council's Constitution were considered given that some members were currently members of the Pensions Committee. Carl Craney advised that this would not be necessary given that the Pensions Board had yet to be established.

Geik Drever reported on discussions with the Treasurer to the West Midlands Integrated Transport Authority (WMITA) with a view to the duties, roles and responsibilities for management of WMITA Pension Fund being delegated to this Committee.

Resolved:

That Council be recommended to approve:

1. That the final Terms of Reference for the Pensions Committee after April 2015 as detailed in the report be approved;
2. That the final Terms of Reference for the Pension Board after April 2015 as detailed in the report be approved;
3. That the commencement date of the changes be in line with the next Municipal Year (2015/16);
4. That the employer representatives from the working party be appointed as employer representatives on the Pension Board;
5. That the process for the recruitment of Pension Board member representatives as detailed in the report be approved.

15 **Information Governance**

Rachel Howe presented a report which outlined proposals to register the Fund as a Data Controller under the Data Protection Act with effect from 1 April 2015.

Resolved:

That the contents of the report be noted.

16 **Appointment of a representative to a Special Appointments Committee**

Geik Drever presented a report which invited the Committee to support the Fund establishing a post of an Assistant Director Actuarial and Pensions and to nominate members to serve on the Special appointments Committee alongside the Chair and Vice Chair of the Committee and the Deputy Leader of Wolverhampton City Council.

Resolved:

1. That the proposal of the Fund establishing a post of Assistant Director Actuarial and Pensions be approved;
2. That a Special Appointments Committee be established comprising the Chair and Vice Chair of the Committee (Cllrs Bert Turner and Lorna McGregor), the Deputy Leader of Wolverhampton City Council (Cllr Peter Bilson) together with Cllrs Paul Singh and Tersaim Singh (Wolverhampton City Council) and Cllr Rachel Harris (Dudley MBC) and Cllr Mohammed Arif (Walsall MBC).

17 **Exclusion of the public and press**

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>
18	Investment portfolio valuation	3
19	Responsible investment activities	3

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

### **18 Investment portfolio valuation**

Details of the Investment portfolio valuation between as at 30 September 2014 were made available for inspection. Geik Drever suggested that, in future and in order to reduce printing costs, members and observers would be invited into the Fund's offices to review this information if they so wished.

Resolved:

1. That the Investment portfolio valuation as at 30 September 2014 be received and any matters arising therefrom be referred to the Director of Pensions;
2. That in future, no further copies of the report be printed but members and officers be invited into the Fund's offices to review the information if they so wished.

### **19 Responsible investment activities**

Mark Chaloner presented a revised report which informed the Committee of the engagement work undertaken by the Investment Team regarding responsible investment activities between the period 1 July 2014 to 30 September 2014.

In discussion, the Committee agreed to adhere to the Fund's engagement policy and to not adopt the exclusion of companies on purely ethical criteria as a matter of policy.

There was also a discussion regarding National Express's North American operations and a proposed way forward.

Resolved:

1. That the Director of Pensions seek to obtain details of the contents of the proposed Notice of Motion to be submitted at the Annual General Meeting of National Express;
2. That the contents be circulated to members of the Committee with a request that they indicate whether they wish to support counter signing the Notice of Motion on behalf of the Fund;
3. That the Director of Pensions determine the way forward dependent upon on a simple majority of responses received by a date identified at the time of circulation of the details of the contents of the proposed Notice of Motion;
4. That the Fund advise the correspondents in relation to the Fund's position on the Israel and Palestine conflict and on armaments companies;
5. That the response to the correspondents detailed in 4. above be circulated to all members of the Committee;
6. That the Pensions Investment Research Company (PIRC) be approached to research and engage on the Fund's behalf with the companies allegedly involved in the Israel – Palestine conflict.

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# Investment Advisory Sub-Committee

Minutes - 10 December 2014

## Attendance

### Members of the Investment Advisory Sub-Committee

Cllr Bert Turner (Chair)  
Cllr Peter Bilson  
Cllr Tersaim Singh  
Cllr Mohammed Arif (Walsall MBC)  
Cllr Rachel Harris (Dudley MBC)  
Cllr Alan Rebeiro (Solihull MBC)  
Malcolm Cantello (Trade Union Representatives)

### Trade Union observers

Malcolm Cantello (Unison)

### Employees

Mark Chaloner	Assistant Director, Investments
Carl Craney	Democratic Support Officer
Jane Hazeldine	Trustee Management Officer
David Kane	Fund Accountant

### Advisors

John Fender – John Fender Associates  
James Clifton Brown – CBRE  
Mike Daggett – CBRE  
Mick Roult - CBRE  
Mike Weston - PIP

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

*Item No.*    *Title*

- 1 Apologies for absence (if any)**  
Apologies for absence had been received from Cllr Steve Eling (Sandwell MBC), Cllr Damian Gannon (Coventry City Council), Martin Cliff (UNITE), Victor Silvester (UNITE) and Ian Smith ((UNITE).
- 2 Substitute members**  
Cllr Sandra Hevican attended the meeting as a Substitute Member for Cllr Steve Eling (Sandwell MBC).
- 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 24 September 2014 be confirmed as a correct record and signed by the Chair subject to the undermentioned amendments:

Minute No 10

- The deletion of “a) A decrease in the allocation to UK equities from 8% to 10% of assets” and the substitution therefor of “a) A decrease in the allocation to UK equities from 10% to 8% of assets”
- The deletion of “b) An increase in the allocation to global equities from 10% to 8%” and the substitution therefor of “b) An increase in the allocation to global equities from 8% to 10%”.

5 **Matters arising**

There were no matters arising from the minutes of the meeting held on 24 September 2014.

6 **Exclusion of the 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	Asset allocation and investment performance – 1 July 2014 – 30 September 2014	3
8	Investment management activity – 1 July 2014 – 30 September 2014	3
9	Economic and Market Update – September 2014	3
10	Direct property investment strategy	3
11	Pensions Infrastructure Platform (PIP) - Update	3

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

7 **Asset allocation and investment performance - 1 July 2014 - 30 September 2014**

Mark Chaloner presented a quarterly report which covered the performance of the Fund and the implementation of its investment strategy for the period from 1 July 2014 to 30 September 2014 and which also set out the position of each portfolio at the end of the period.

Mark Chaloner and Geik Drever responded to various questions from members and observers.

Resolved:

That the performance and investment activity for the quarter ended 30 September 2014 be noted.

8 **Investment management activity - 1 July 2014 - 30 September 2014**

Details of the Investment Management Activity between 1 July 2014 and 30 September 2014 were made available for inspection. Geik Drever suggested that, in future and in order to reduce printing costs, members and observers would be invited into the Fund's offices if they wished to review this information. Cllr Mohammed Arif enquired as to whether a computer link to this information could be established. Geik Drever advised that, in view of the confidential nature of the contents of the report, this was not considered appropriate.

Resolved:

1. That the Investment Management Activity 1 July 2014 – 30 September 2014 be received and any matters arising therefrom be referred to the Director of Pensions;
2. That in future, no further copies of the report be printed but members and officers be invited into the Fund's offices if they wished to review the information.

9 **Economic and Market Update - September 2014**

Mark Chaloner presented the report of the Fund's investment advisers, Hymans Robertson LLP, which reviewed the global economy and investment markets.

Resolved:

That global economic and market update paper prepared by the Fund's advisers, Hyman Robertson LLP, be noted.

10 **Direct property investment strategy**

Geik Drever introduced James Clifton–Brown (Chief Investment Officer), Mike Daggett (WMPF Fund Manager) and Mick Roul (WMPF Portfolio Manager) of CBRE to the Sub Committee.

Messrs Clifton–Brown, Daggett and Roul presented a report on the Fund's direct property investment strategy for 2015. Members and observers and John Fender of John Fender Consultancy raised questions and points on the report which were responded to by Messrs Clifton-Brown, Daggett and Roul.

Resolved:

1. That the Fund's direct property investment strategy for 2015 be noted;
2. That arrangements be made for a site visit to some of the Fund's property holdings in Spring / Summer 2015.

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

Geik Drever introduced Mike Weston, Chief Executive, PIP to the Sub Committee. Mike Weston gave a presentation on the work undertaken to date, on proposals for

the future and the opportunities presented by the PIP. He responded to questions from members and observers on the contents of the presentation.

Mike Weston left the meeting.

Geik Drever and Mike Hardwick presented a report which brought the Sub Committee up to date with progress on the Pensions Infrastructure Platform (PIP) and responded to questions from members and observers.

Resolved:

1. That the report and presentation by Mike Weston, the newly appointed Chief Executive of the PIP be noted;
2. That the proposals to continue to support the build out of the PIP be approved on the same terms agreed by the Sub Committee at its meeting on 25 June 2014;
3. That a revised long stop date be not adopted at this stage pending Mike Weston's new business plan for the PIP with progress on the development of the PIP being reported to future meetings.





# Pensions Committee

## 18 March 2015

<b>Report Title</b>	Pension administration report from 1 October to 31 December 2014	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Simon Taylor Tel Email	Head of Pensions Administration 01902 55(4276) Simon.taylor2@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

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### Recommendations for noting:

The Committee is asked to note:

1. The applications approved by the Strategic Director of Pensions, the Chair and Vice Chair of Pensions Committee for admission to the West Midlands Pension Fund.
2. The pension administration activity of the Fund for the quarter to 31 December 2014.

## **1. Purpose**

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

## **2. Background**

- 2.1 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 The number of scheme members in the Fund in all three categories stands at 275,553 with an overall increase since 30 September 2014 of 13. Of the active membership of 104,165 - 52% are full-time and 48% 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, in general, active memberships are falling and pensioners and deferred membership increasing. Over the course of the last six months, however, active numbers appear to have increased and, in December 2014 in particular, pensioner and deferred membership numbers have decreased. The increase in active members is partially due to the receipt of bulk joiner files from employers on a lagged basis and therefore does not necessarily reflect the actual date these members joined the Scheme.

### **3.2 Workflow statistics**

The process analysis statistics (Appendix B) show details of overall workflow within the Pensions Administration Service during the period 1 October – 22 December 2014 (statistics over the festive period will be incorporated into the next quarterly report).

During the period covered by this report 32,061 administrative processes were commenced and 30,273 completed. On 22 December 2014 there were 10,331 items of work outstanding. Of this 2,688 items were in pending as a result of information awaited from a third party e.g. scheme members, employers or transferring authorities. Within pensions administration, 6,749 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. All employers went live using this service from 1 September 2014 which will release further capacity for other work processing.

### 3.3 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 14 new organisations being admitted to the Fund during the period 1 October 2014 – 31 December 2014. The current number of employers as at 31 December 2014 is 451. The level of ongoing work being processed at the end of the period is as follows:-

- 55 admission agreements
- 47 academies
- 14 employer terminations

### 3.4 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). 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 are slightly lower than in the previous year. This reflects the move to processing some work via bulk BDI import and via the web portal. The average % indexing error rate is below 0.2%, which remains a good level of quality control. 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. IDR (Internal Dispute Resolution Procedure) casework

4.1 So far in the 2014/2015 financial year twelve cases have been received. Three cases have been referred back to the employer to re-consider the stage one decision. Two cases are in progress and seven have been dismissed.

The seven cases dismissed related to the following pension issues:

- Five cases dismissed related to the exercise of employer discretion on the early payment of deferred benefits from age 55.
- Two cases related to the Tier of Ill Health benefits awarded.

## 5. Death grant

5.1 In this financial year five cases have been referred to the Legal Department for consideration. Three cases are on-going and the other two have successfully been resolved.

## 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. In these circumstances, Pensions Committee has delegated responsibility for approving such applications to the Strategic 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 Strategic Director of Pensions, the Chair and Vice Chair and Pensions Committee.

Employer name	Guarantee Status (Agreement)	No of employees (Scheme members) Agreement type	Status
Birmingham Solihull Mental Health NHS Foundation Trust	Solihull MBC	5(5) Closed	Approved
Steps to Work	Walsall Housing Group	24(24) Open	Approved
Aspens Services (Sladefield Infants School)	Coventry City Council	4(4) Closed	Approved
ABM Catering Ltd (Cannon Park)	Coventry City Council	2(2) Closed	Approved
ABM Catering Ltd (Allesley Infants School)	Coventry City Council	2(2) Closed	Approved
ABM Catering Ltd (St Johns Academy)	St Johns Academy	1(1) Closed	Approved

## 7. Pensions in payment

The gross annual value of pensions in payment to December 2014 was £420.78m, of which £24.2m (£8.6m for pensions increase and £15.6m 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 £
October 2014	74,192	31,145,734.32
November 2014	73,213	30,683,143.01
December 2014	79,596	31,365,624.89

The December figures include pensioners paid on a quarterly basis

## **8. Communications & marketing activity**

### **8.1 Presentations**

During the period Fund officers have continued to deliver presentations upon request from employers. The team will provide support on any pension subjects that are requested by an employer for their employees, however, the emphasis during this reporting period has been helping member understand the Scheme rules and how their benefits are calculated, as well as supporting our members who are at risk of redundancy or may suffer a reduction in pay. A total of 34 presentations were delivered to 658 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 223 members on a one to one basis.

### **8.2 Roadshows**

One member roadshow was held during this period at Lifford House at Birmingham City Council.

### **8.3 Web Portal**

Work is continuing to increase awareness of the web portal facility for members and employers. There are currently over 21,000 members registered to use the web-portal facility. As at 31 January 2015 there are 320 employer accounts representing approximately 110 individual organisations.

- 8.3.1 The web portal service is actively promoted via communications sent to members and employers alike. It is also promoted through scheduled events such as the Employer AGM, member presentations and various meetings to include focus groups such as the employer peer group. The service is highlighted on the Fund's website, particularly the provision of electronic annual benefit statements through this medium from 2015.

## **9. Financial implications**

- 9.1 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.

**10. Legal implications**

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

**11. Equalities implications**

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

**12. Environmental implications**

12.1 The report contains no direct environmental implications.

**13. Human resources implications**

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

**14. Corporate landlord implications**

14.1 The report contains no direct corporate landlord implications.

**15. Schedule of background papers**

15.1 None

**16. Schedule of appendices**

16.1 Appendix A: Overall membership numbers

16.2 Appendix B: Process analysis

16.3 Appendix C: Detailed process analysis

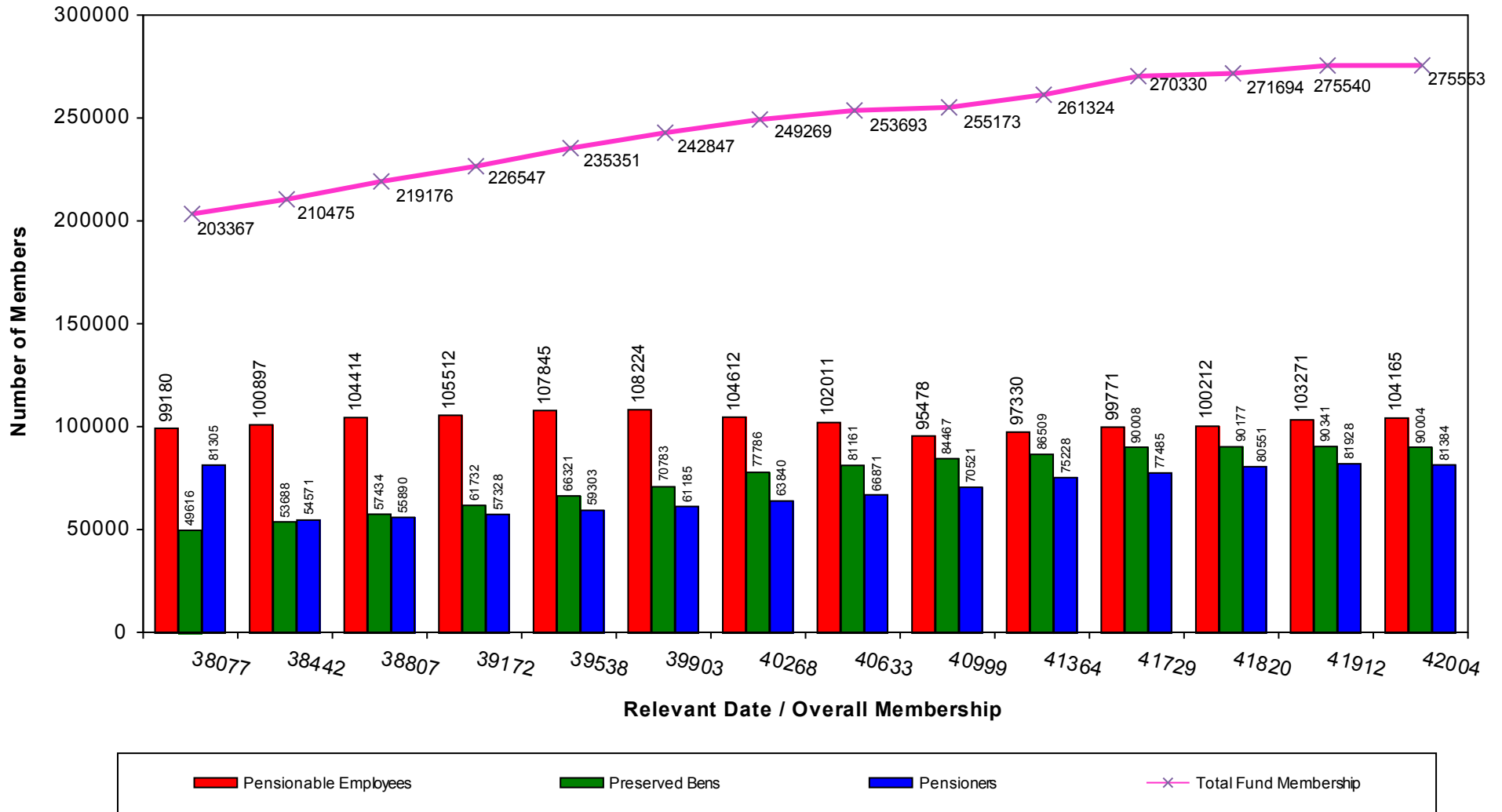
16.4 Appendix D: Customer service statistics

16.5 Appendix E: Data quality statistics

West Midlands Pension Fund  
2014/15

### Overall Membership West Midlands Pension Fund Membership Statistics as at 31 December 2014

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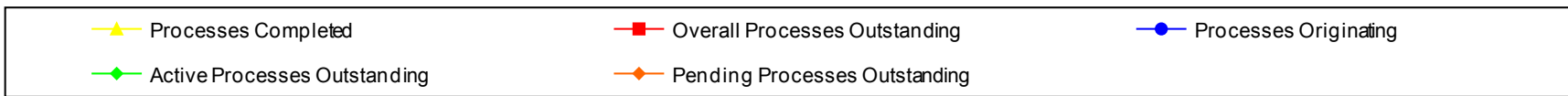
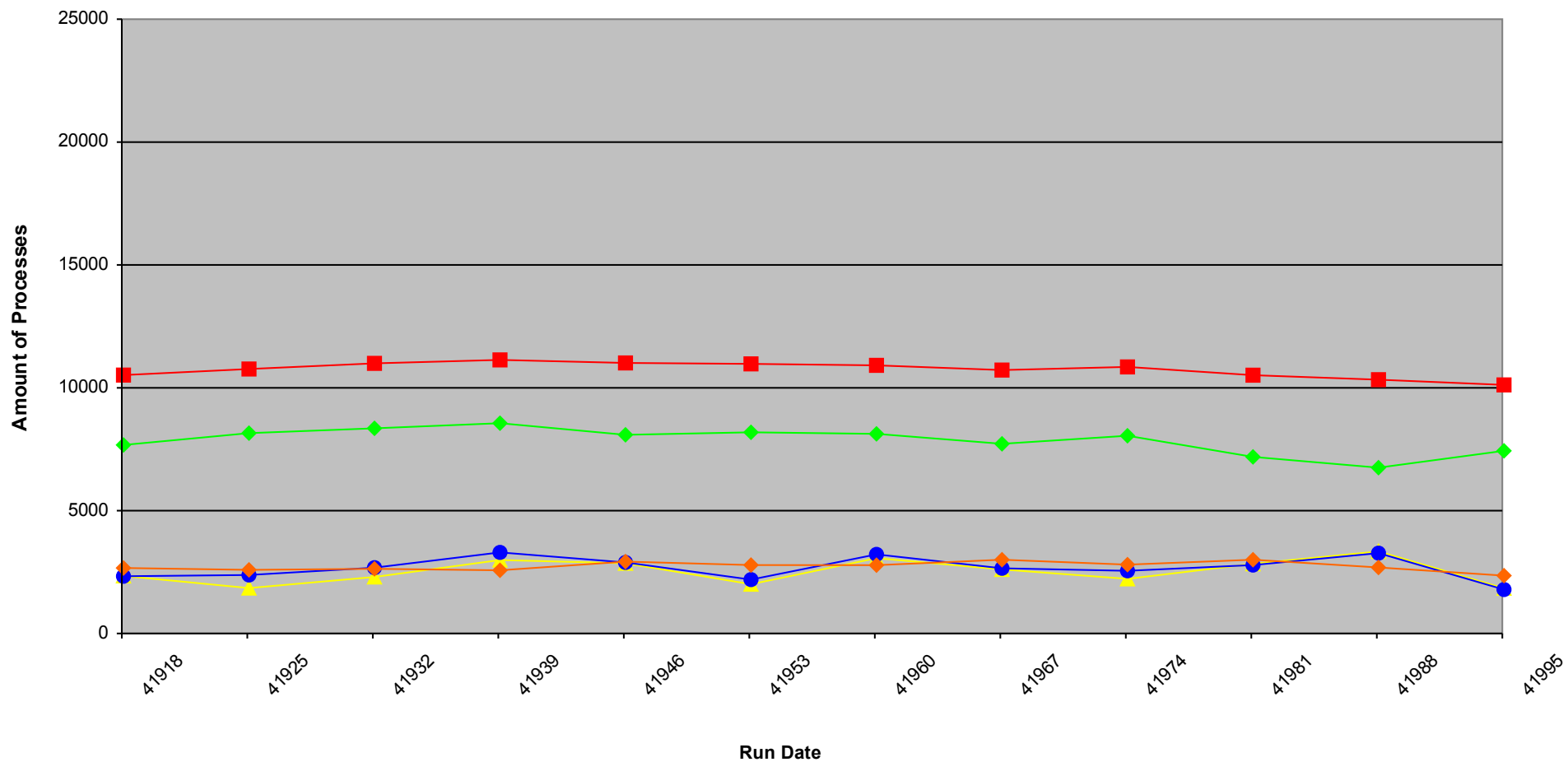
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West Midlands Pension Fund  
2014/15

### Process Analysis

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2014/15

2010/11	2011/12	2012/13	2013/14	April	May	June	July	August	Sept	Oct	Nov	Dec	YTD 2014/15
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**Active & Deferred members**

Process type														
Joiners and Rejoiners	8,763	6,403	11,138	13,558	628	482	395	106	21	2	1	15	1	1,651
Changes in circumstances eg change in hours	18,759	15,303	12,385	11,273	410	582	441	543	417	609	609	575	995	5,181
Deferments	5,939	7,818	5,741	6,728	269	325	321	185	184	739	402	378	315	3,118
Active Retirements (Employer retirements)	3,317	3,950	2,475	2,279	182	178	178	197	172	208	220	182	208	1,725
Deferred Retirements	3,332	2,970	2,971	2,726	44	352	220	206	192	64	308	210	188	1,784
Deaths of members	295	262	287	285	8	16	6	22	25	13	21	15	27	153

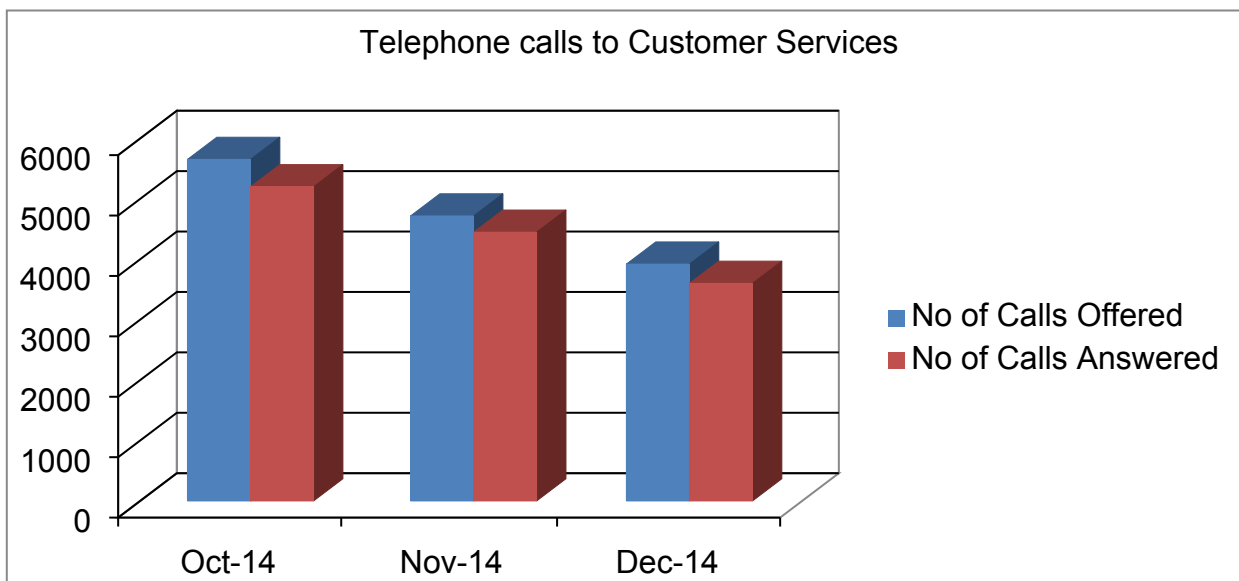
**Pensioner members**

Process type														
Changes in circumstances:-														
Data eg Passwords, NI Numbers	1,310	1,804	1,865	2,017	164	187	182	245	408	156	182	153	185	1,862
Changes of Address	2,420	2,681	2,131	1,732	26	221	132	178	291	130	162	134	106	1,380
Changes of Bank	2,927	2,531	2,783	3,420	460	404	144	347	237	347	201	228	152	2,520
Deaths of pensioners	2,085	2,145	2,101	2,546	311	224	227	256	267	215	224	159	216	2,099

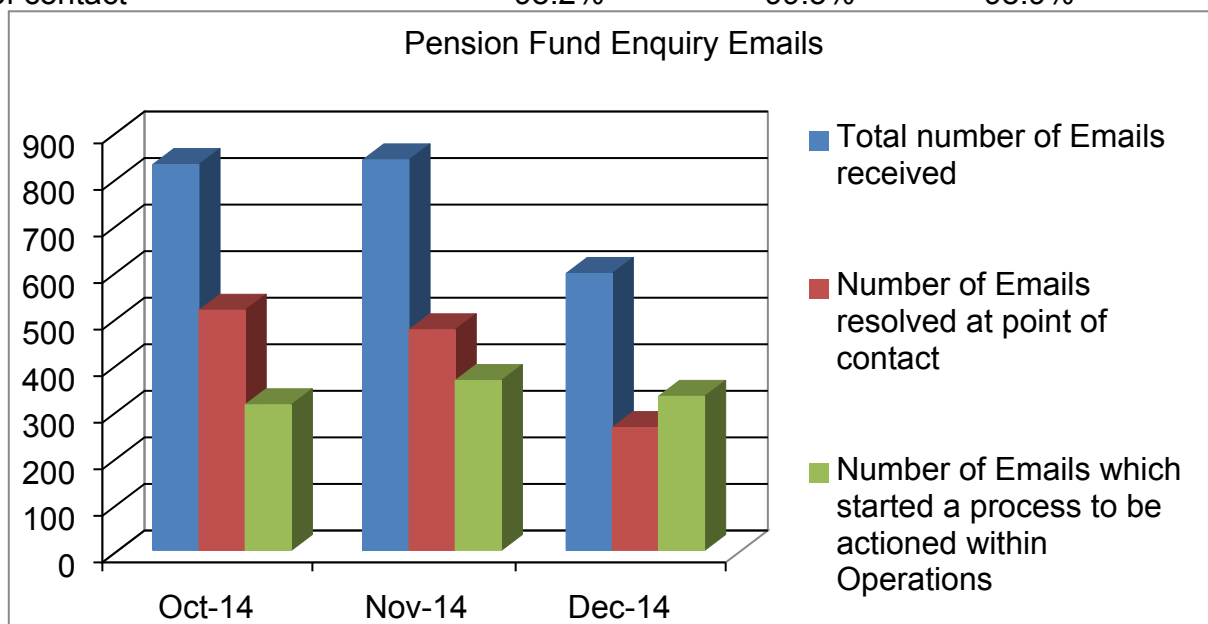
Payroll					Monthly	Monthly	Quarterly	Monthly	Monthly	Quarterly	Monthly	Monthly	Quarterly	
Actual number paid	792,724	837,189	870,804	895,018	73,254	73,422	79,662	73,451	73,921	80,145	74,192	73,213	79,596	680,856

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Customer Services Statistics  
1 October 2014 to 31 December 2014



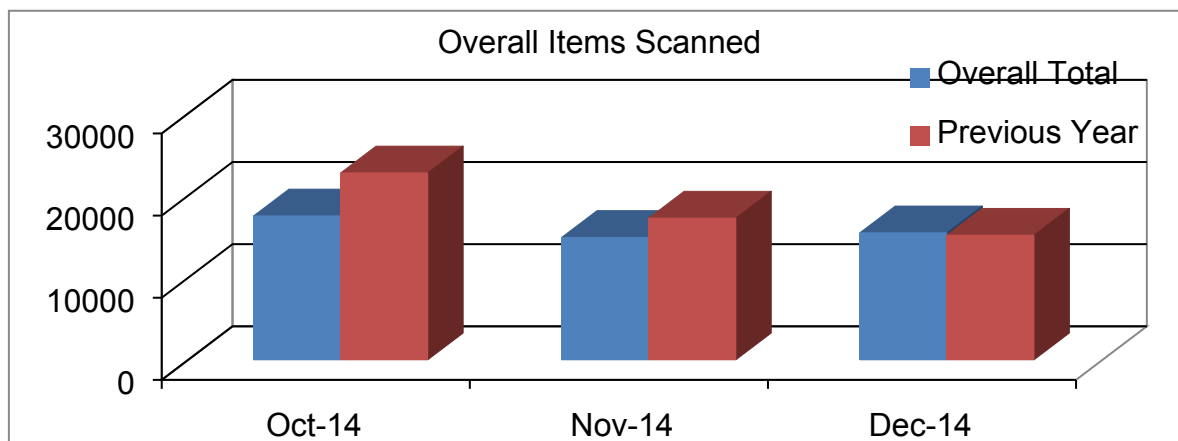
	Oct 2014	Nov 2014	Dec 2014
No of Calls Offered	5653	4717	3920
No of Calls Answered	5200	4448	3602
Answer Rate	92%	94%	92%
Calls answered at first point of contact	98.2%	99.5%	98.9%



	Oct 2014	Nov 2014	Dec 2014
Total Number of Emails received	829	839	595
Number of Emails resolved at point of contact	516	474	264
Number of Emails which started a process to be actioned within Operations	313	365	331

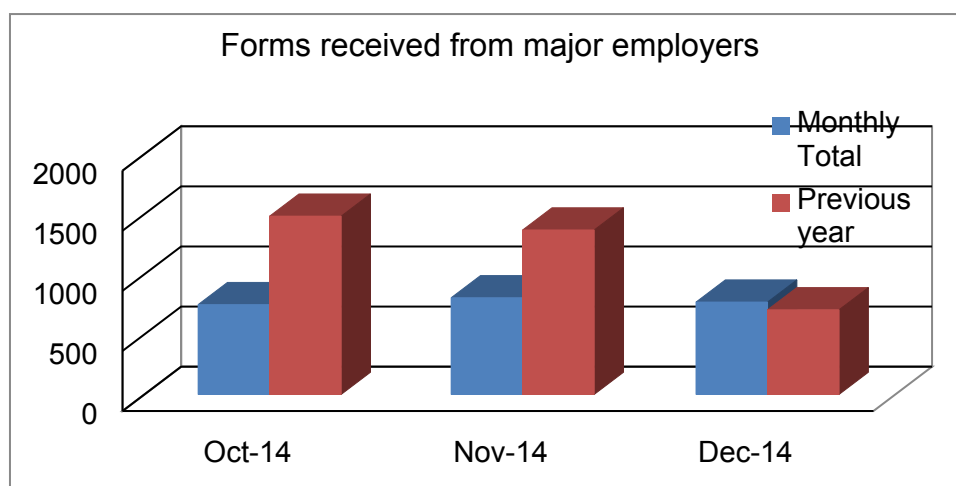


Data Quality Statistics  
1 October 2014 – 31 December 2014



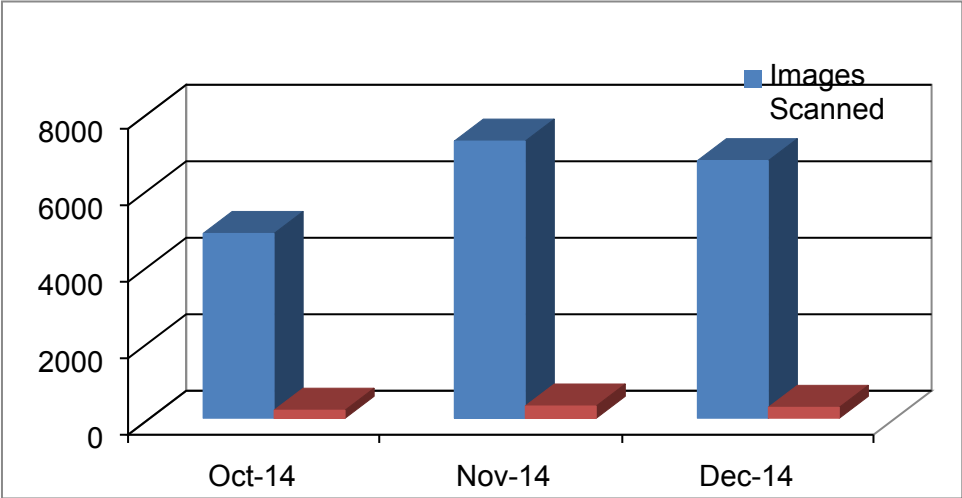
	Overall Total	Previous Year
October 2014	17512	22746
November 2014	14895	17249
December 2014	15452	15163

	Overall Scanned	Indexing errors	% error rate
October 2014	17512	33	0.19
November 2014	14895	20	0.13
December 2014	15452	22	0.14



	Monthly Total	Previous year
October 14	747	1483
November 14	804	1368
December 14	768	704

Microfiche Statistics



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	Images Scanned	No of UPM Records updated
Oct-14	4832	211
Nov-14	7247	321
Dec-14	6735	286

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# Pensions Committee

## 18 March 2015

<b>Report Title</b>	Pension Administration Strategy	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Simon Taylor Tel Email	Head of Pensions Administration 01902 55(4276) Simon.taylor2@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

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### Recommendations for noting:

The Committee is asked to note:

1. The adoption of a revised Pensions Administration Strategy (PAS) with effect from 1 April 2015.

**1. Purpose**

- 1.1 To inform Committee of the revision to the Pension Administration Strategy (PAS).

**2. Background**

Under the LGPS Regulations, the Fund is required to publish a PAS and to ensure it is constantly reviewed and revised as appropriate.

**3. Pension Administration Strategy**

- 3.1 The Fund published the last version of its PAS in 2013. Given a number of regulatory Fund policy and governance changes, it has been necessary for the Fund to revise this strategy and publish a revised version with effect from 1 April 2015.
- 3.2 The PAS covers primary matters as outlined in the Regulations such as administration standards, performance measures and communication with employers. It also sets out the key undertakings and responsibilities of both the Fund and participating employers.

**4. Consultation**

- 4.1 As part of the consultation process, the PAS is brought to the attention of Committee with a draft version provided in appendix A for consideration.
- 4.2 The draft version will be placed on the Fund's website and a copy emailed to all participating employers week commencing 2 March 2015 for comments to be received by 20 March 2015. Any amendments will then be made, to include the comments made by Committee, with a view to the PAS being effective 1 April 2015.

**5. Financial implications**

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

There are financial implications associated with this report in that it covers potentially fines in the event of persistent non compliance with key performance standards set out for participating employers.

**6. Legal implications**

- 6.1 The report contains no direct legal implications.

**7. Equalities implications**

- 7.1 The report contains no direct equalities implications.

**8. Environmental implications**

8.1 The report contains no direct environmental implications.

**9. Human resources implications**

9.1 The report contains no direct human resources implications.

**10. Corporate landlord implications**

10.1 The report contains no direct corporate landlord implications.

**11. Schedule of appendices**

11.1 Appendix A: Draft Pensions Administration Strategy 2015

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# Pensions Administration Strategy 2015

April 2015

# Pensions Administration Strategy 2015

## Introduction

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This is the pension administration strategy of the West Midlands Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by Wolverhampton City Council (the administering authority). The pension administration strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. This document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service.

### Regulatory context

The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations. The most recent of such regulations, appertaining to administration are the LGPS (Administration) Regulations 2014. Regulation 59(1) of the (Administration) Regulations 2014 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. This regulation outlines the primary matters which should be covered to include:

- administration standards
- performance measures
- communication with scheme employers

In addition, Regulation 70 of the (Administration) Regulations 2014 covers the ability of an administering authority to recover additional costs arising from Scheme employers' level of performance. Furthermore, Regulation 71 of the same regulations allows the administering authority to apply interest on late payments by scheme employers.

### Aims

The aim of this pension administration strategy is to set out the quality and performance standards expected of the Fund and its scheme employers. It seeks to promote good working relationships and improve efficiency between the Fund and its scheme employers.

The efficient delivery of the benefits of the scheme is reliant upon sound administrative procedures being in place between stakeholders, including the Fund and scheme employers. This administration strategy sets out the expected levels of performance of the Fund and the scheme employers, and provides details about the monitoring of performance levels and the action(s) that might be taken where persistent non-compliance occurs.

### Implementation

The administration strategy is effective from 1 February 2015 and is kept under review and revised to keep abreast of changes in scheme and Fund regulations.

## West Midlands Pension Fund Administration

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### Responsibility

Wolverhampton City Council, as administering authority, is responsible for administering the LGPS for the West Midlands region. This region encompasses seven district councils as follows:

- 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

The administering authority has delegated this responsibility to the Pensions Committee (the Committee), which is made up of district councillors and trade union observers. The Committee take a keen interest in administration matters and receive a report on administration at their quarterly meetings. The Committee will monitor and review this administration strategy on a regular basis.

### Objective

The Fund's objective in relation to administration is to deliver an efficient and value for money service to its scheme employers and scheme members. Operationally, the administration of the Fund is carried out by West Midlands Pension Fund staff employed by the administering authority.

### Communications

The Fund has published a Communication Policy Statement, which details the way the Fund communicates with Committee, scheme members, prospective scheme members, scheme employers and other stakeholders. The latest version is accessible from the Fund website: [wmpfonline.com](http://wmpfonline.com)

The Fund also maintains dedicated helplines specifically for Scheme employers and members, details of which are as below:

- **Customer Service helpline: 0300 111 1665**
- **Employer helpline: 0300 1116516**

## Performance Standards

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Administration of the LGPS is maintained at local level by a number of regional pension funds and, as such, certain decisions must be made by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has service level agreements between itself and scheme employers which are set out below.

### Overriding legislation

In carrying out their roles and responsibilities in relation to the administration of the LGPS, the Fund and scheme employers will, as a minimum, comply with overriding legislation.

### Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect, the standards to be met are:

- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this

### Administration strategy

The Fund publishes its service plan annually which sets out its short, medium and long-term objectives as well its priorities and implementation targets. A copy of the most recent service plan can be found on the Fund's website: [wmpfonline.com](http://wmpfonline.com)

### Punctuality

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. The LGPS itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

## Fund Responsibilities

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as an exhaustive list.

### Fund administration

This details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

Ref	Function/Task	Performance target
F1	Publish and keep under review the pensions administration strategy.	To be consulted upon with Employer Peer Group and placed on Fund's website for three weeks before being adopted.
F2	Publish and keep up to date all forms required for completion by scheme members, prospective scheme members or scheme employers.	30 days from any revision.
F3	Host meetings for all scheme employers. November/December each year).	Twice per annum (usually June/July and
F4	Organise coaching sessions for scheme employers.	Upon request from scheme employers or as required.
F5	Provide bespoke meetings for scheme employers.	As required.
F6	Notify scheme employers and scheme members of changes to the scheme rules.	Within one month of the change(s) coming into effect.
F7	Provision of a newsletter/briefing note to scheme employers.	Every two months
F8	Notify a scheme employer of issues relating to the scheme employer's non-compliance with performance standards.	Within ten days of a performance issue becoming apparent.
F9	Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due).	Within ten days of scheme employer failure to improve performance, as agreed.
F10	Issue annual benefit statements to active and deferred members as at 31 March each year.	By 31 August following the year-end
F11	Issue formal valuation results (including individual employer details).	No later than 1 March following the valuation date.
F12	Carry out valuation assessments on cessation of admission agreements or a scheme employer ceasing participation in the Fund.	Upon each cessation or occasion where a scheme employer ceases participation on the Fund.
F13	New admission agreement, where required (including the allocation of assets and notification to the Secretary of State).	Within three months of agreement to set up provided prospective employer adheres to certain prescribed timescales
F14	Publish, and keep under review, the Fund's governance compliance statement.	By 30 September, following the year-end as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee.
F15	Publish, and keep under review the Fund's funding strategy statement.	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published by 31 March following valuation date or as required.



Ref	Function/Task	Performance target
F16	Publish the Fund's annual statement of accounts.	By 30 September following the year-end or following the issue of the auditor's opinion.
F17	Publish the Fund's annual report	By 31 December, following the year-end.
F18	Publish, and keep under review, the Fund's communication policy statement.	By 30 September, following the year-end, as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee.
F19	Publish, and keep under review, the Fund's termination policy statement.	Within 30 days of any changes being made to the policy.
F20	Publish, and keep under review, the Fund's charging policy.	Within 30 days of any changes being made to the policy.

### Scheme administration

This details the functions which relate to scheme member benefits from the LGPS.

Ref	Function/Task	Performance target
F21	Provide an answer or acknowledgement to scheme members/scheme employers/ personal representatives/ dependents and other authorised persons.	Five days from receipt of enquiry.
F22	Set up a new starter and provide statutory notification to the member.	Twenty days from receipt of correctly completed starter form from a scheme employer.
F23	Non-LGPS inward transfers processed.	Ten days of receipt of request from scheme member.
F24	Non-LGPS transfer out quotations processed.	Ten days of receipt of request.
F25	Non-LGPS transfer out payments processed.	Ten days of receipt of completed forms.
F26	Internal and concurrent transfers processed.	Ten days of receipt of request.
F27	Estimates for divorce purposes.	Ten days of receipt of request.
F28	Notify the scheme employer of any scheme member's election to pay additional pension contributions, including all required information to enable deductions to commence.	Ten days of receipt of election from scheme member.
F29	Process scheme member requests to pay/amend/ cease additional voluntary contributions.	Five days of receipt of request from scheme member.
F30	Provide requested estimates of benefits to employees/employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency.	15 days from date of request. Note: bulk requests of more than 20 estimates per month will be subject to further agreement.

Ref	Function/Task	Performance target
F31	Deferred benefits calculated.	Fifteen days from receipt of all necessary information.
F32	Deferred benefits processed for payment following receipt of election.	Five days from receipt of all necessary information.
F33	Refund payments.	Five days from receipt of all necessary information.
F34	Provision of new retirement letters detailing member options.	Fifteen days from receipt of all necessary information.
F35	Payment of retirement benefits following receipt of election.	Lump-sum payment within five days of receipt of all necessary documentation. First pension payment on next available payroll run.
F36	Notification of death processed.	Within ten days of receipt of all necessary documentation.
F37	Calculate and pay death grant.	Within ten days of receipt of all necessary documentation.
F38	Processing of dependants' pensions for payment.	Within ten days of receipt of all necessary documentation.
F39	Calculate and pay transfer out payments to receiving fund and notify scheme member.	Ten days following receipt of election form from scheme member.
F40	Provide payslips to scheme members in receipt of a pension.	Twice a year in paper format unless specifically requested, otherwise available online
F41	Process all stage 2 pension internal dispute resolution applications.	Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.
F42	Answer all calls to helplines in office hours.	85%
F43	Answer calls to helplines in office hours at first point of contact.	95%
F44	Formulate and publish policies in relation to areas where the administering authority may exercise a discretion within the scheme and keep under review.	Any changes to be published within one month.

## Scheme Employer Responsibilities

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service.

All information must be provided in the format prescribed by the Fund within the prescribed timescales.

### Fund administration

This details the functions which relate to the whole Fund, rather than individual events.

Ref	Function/Task	Performance target
E1	Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation.	30 days of employer joining fund or change to nominated representative.
E2	Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	To be kept under review and a revised statement published within one month of any changes.
E3	Respond to enquiries from the Fund.	Ten days from receipt of enquiry.
E4	Remit employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund.	Cleared funds to be received by 22nd calendar day of the month after deduction or 19th if by cheque.
E5	Implement changes to employer contribution rates as instructed by the Fund.	At date specified on the actuarial advice received by the Fund.
E6	Provide year-end information required by the Fund in the format stipulated in the instructions issued March each year.	By 30 April following the year-end.
E7	To ensure optimum accuracy of year-end information	With no less than 90% accuracy across all members
E8	Distribute any information provided by the Fund to scheme members/potential scheme members	Within 10 days of its receipt.
E9	Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation.	At the time of deciding to tender so that information can be provided to assist in the decision.
E10	Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with.	Agreement to be in place no later than date of contract.
E11	Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund.	As soon as the decision is made, so that the Fund can instruct the actuary to carry out calculations, if applicable.
E12	Refer new/prospective scheme members to the Fund's website.	Ten days of commencement of employment or change in contractual conditions.
E13	Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent.	Within 30 days of receipt of invoice from the Fund.
E14	Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	Within 30 days of receipt of invoice from the Fund.

## Scheme administration

This section details the functions which relate to scheme member benefits from the LGPS.

Ref	Function/Task	Performance target
E15	Use online forms or web portal for all relevant scheme administration tasks, where possible.	Within one month of employer being set up to use the online system.
E16	Notify the Fund of new starters.	20 days of member joining or such shorter periods as required by auto-enrolment obligations under the Pensions Act 2008.
E17	Arrange for the correct deduction of employee contributions from a member's pensionable pay.	Immediately on joining the scheme, opting in or change in circumstances.
E18	Ensure correct employee contribution rate is applied	Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.
E19	Ensure correct deduction of pension contributions during any period of child related leave, strike absence or other forms of leave or absence from duty.	Immediately, following receipt of election from scheme member, to make the necessary pension contributions.
E20	Commence deduction of additional regular contributions or amend such deductions, as appropriate.	Month following election to pay contributions or notification received from the Fund.
E21	Cease deduction of additional regular contributions. member.	Immediately following receipt of election from scheme member.
E22	Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s).	Commence deduction of AVCs in month following the month of election. Pay over contributions to the AVC provider(s) by the 22nd of the month following the month of election or 19th if by cheque.
E23	Provide the Fund with details of all changes to members' working hours using the method stipulated by the Fund	20 days of change for protected members only.
E24	Notify the Fund of other material changes in employees' circumstances (eg, marital or civil partnership status) using the method stipulated by the Fund.	Immediately, following notification by the scheme member of a change in circumstances.
E25	Notify the Fund of leaves of absence with permission (maternity, paternity, career break, etc) using the method stipulated by the Fund.	Within 20 days of notice from employee for protected members only.
E26	Notify the Fund when a member leaves employment including an accurate assessment of final pay using the method stipulated by the Fund.	20 days of month end of leaving.
E27	Notify the Fund when a member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement using the method stipulated by the Fund.	At least one month before retirement date.
E28	Notify the Fund of the death of a scheme member using the method stipulated by the Fund	As soon as practicable, but within ten days.
E29	Appoint person for stage 1 of the pension dispute process and provide full details to the Fund	Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator.

## Monitoring Performance and Compliance

---

Ensuring compliance with the LGPS regulations and this administration strategy is the responsibility of the Fund and scheme employers. This section describes the ways in which performance and compliance will be monitored.

### Audit

The Fund is subject to an annual external audit of the accounts by extension the processes employed in calculating the figures for the accounts. The key findings of their work are presented to the Committee in an annual report, and the Fund is provided with an action plan of recommendations to implement. In addition the Fund is subject to internal audits by Wolverhampton City Council's internal auditors of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and, where appropriate, duly implemented.

Both the administering authority and scheme employers will be expected to comply with requests for information from internal and external audit in a timely manner.

In addition, the Fund's own internal Compliance team will ensure its processes and internal controls remain robust with a direct feed into the administration team.

### Performance monitoring

The Fund monitors its performance utilising its own internal key performance indicators. Monitoring occurs on a monthly basis and the key performance indicators are reported to Committee via a quarterly report on administration of the Fund allowing them to monitor the performance of the Fund's in-house staff. A high level overview of performance is provided to Committee on an annual basis. The performance of scheme employers against the standards set out in this document will be incorporated into the reporting to the Committee, as appropriate, to include data quality.

### Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should email comments to [wmpfemployerliaison@wolverhampton.gov.uk](mailto:wmpfemployerliaison@wolverhampton.gov.uk).

This feedback will be incorporated into the quarterly reports to the Committee.

### Annual report on the strategy

The scheme regulations require the Fund to undertake a formal review of performance against the administration strategy on an annual basis. This report will be produced annually and incorporated within the annual report and accounts.

## Policy on Charging Employers for Poor Performance

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The scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where a fund wishes to recover any such additional costs, they must give written notice stating:

- the reasons in their opinion that the scheme employer's poor performance contributed to the additional cost
- the amount of the additional cost incurred
- the basis on how the additional cost was calculated
- the provisions of the administration strategy relevant to the decision to give notice.

### Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the scheme as a direct result of the poor performance of any scheme employer (including the administering authority).

The circumstances where such additional costs will be recovered from the scheme employer are:

- failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this administration strategy (either as a result of punctuality of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this administration strategy
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

### Approach to be taken by the Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of poor performance, provide the necessary support or training and put in place appropriate processes to improve the level of service delivery in the future. Therefore, scheme employers will be afforded the time to address the causes of non-compliance with performance standards in order that they do not become persistent, before any fines are levied. Employers should be aware that in the case of late payment of contributions and non-submission of monthly contribution forms, penalties will be incurred for persistent instances of non-compliance with performance standards.

The process for engagement with scheme employers will be as follows:

- 1) Write to the scheme employer, setting out area(s) of non-compliance with performance standards and offer support and, where applicable, further training.
- 2) If no improvement is seen within one month of the support or training or no response is received to the initial letter, the scheme employer will be asked to attend a conference call/meeting with representatives of the Fund to discuss area(s) of non-compliance with performance standards and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.
- 3) If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of non-compliance with performance standards that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.
- 4) An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of poor performance, in accordance with the charging scale set out in this document.

A report will be presented to the quarterly Committee meeting detailing charges levied against scheme employers and outstanding payments.

### Charging scales for administration

The table below sets out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each item is referenced to the 'Scheme Employer Responsibilities' section.

Item	Charge	Ref
Late payment of employee and employer contributions.	£50 plus interest*	E4
Non-provision of the correct schedule accompanying the contributions.	£50 per occasion	E4
Underpayment of employee or employer contributions.	£50 plus interest*	E5/E17 /E18
Late or non-provision of year-end information or the poor quality of year-end information.	£250 plus £100 for every month the information is late.	E6
Late or non-provision of starter forms.	£100 per month for forms not received or late.	E16
Late or non-provision of leaver forms.	£100 per month for forms not received or late.	E26/E27 /E28

\*Interest will be charged in accordance with Regulation 44 of the LGPS administration regulations, which states interest should be charged at Bank of England base rate plus one per cent.

## Service and Communication Improvement Planning

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As set out earlier in this administration strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service.

Communication between the Fund and scheme employers is key to providing the service and is, therefore, an important aspect of service improvement planning.

The Fund's staff work together on a programme of continuous improvement to the service and meet quarterly to review progress against the action plan agreed.

The monitoring of the performance standards set out in this document will inform the programme going forward, and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be emailed to [antony.ellis@wolverhampton.gov.uk](mailto:antony.ellis@wolverhampton.gov.uk)

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund through the monthly briefing note.

## Consultation and Review Process

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In preparing this administration strategy, the Fund will place it upon its website and open up consultation with scheme employers with a closing date of 27 February 2015.

The strategy will be reviewed every year and more frequently if there are changes to the scheme regulations or Fund policies. All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website at [wmpfonline.com](http://wmpfonline.com)



**West Midlands Pension Fund**  
PO Box 3948  
Wolverhampton  
WV1 1 XP  
United Kingdom





# Pensions Committee

## 18 March 2015

<b>Report Title</b>	Funding update	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Simon Taylor Tel Email	Head of Pensions Administration 01902 55(4276) Simon.taylor2@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

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### Recommendations for noting:

#### The Committee is asked to note:

1. The Fund's investment performance and the associated movement since 31 March 2014.
2. The updated funding position as at 31 December 2014.

#### The Committee is asked to approve:

1. The next steps detailed in section 7, with particular emphasis on the de-risking strategies

**1. Purpose**

- 1.1 To provide Committee with an update on the funding position of the Fund since the 2013 actuarial valuation.

**2. Background**

The Fund, in conjunction with the Fund actuary, undertook a valuation of the Fund's assets and liabilities as at 31 March 2013. This report provides an update on the current position and how that has evolved since the valuation.

**3. Actuarial Valuation 2013 recap**

- 3.1 The key assumptions adopted at the 2013 actuarial valuation are as outlined in the table below:

Investment Return/Discount Rate (Funding Target)	4.6% p.a.
CPI inflation	2.6% p.a.
Short term pay restraint	1% p.a. up to 31 March 2018 for certain employers. 1% p.a. up to 31 March 2016 for all others
Long term pay growth	4.35% p.a. (CPI + 1.75%)
Life expectancy	Based on S1PA tables and future improvement based on CMI 2012 model with a floor of 1.5%

- 3.2 The finalised results for the whole Fund as at 31 March 2013 are as follows with the figures as at 31 August 2013 allowing for post valuation market changes shown alongside for comparison:

	31 March 2013	31 August 2013 (using yield reversion)
Deficit	£4,205m	£3,275m
Funding Level	70%	75%
Future service contribution rate	13.3% per annum	13.3% per annum

**4 Funding Strategy Statement (FSS)**

- 4.1 The key principles for the 2013 valuation were incorporated into the Funding Strategy Statement (FSS), which was consulted upon with employers, along with the associated Termination Policy.

4.2 The key changes to the 2013 FSS were as follows:

- A maximum recovery period of 22 years (25 at the 2010 valuation)
- For Transferee Admission Bodies a recovery period aligned to contract length capped at 22 years
- In order to stabilise contributions, phasing of any increases in contributions for those employers with the strongest covenant
- Employers can choose to pay in advance their annual deficit lump sum contributions and/or expected pay-related contributions by 30 April each year. This advance payment results in a discount in the monetary amount payable.
- All employers to have implemented electronic data change via bulk data imports (BDI) by April 2015
- “Ringfencing” arrangements introduced at the 2010 valuation are removed
- Early retirement strain costs are to be paid by an immediate one-off payment, except for those employers with a strong covenant for whom consideration to a short period of amortisation will be given.
- Guarantor of an employer may be kept abreast of the funding position of the relevant employer unless otherwise indicated in writing.

**5. Investment performance**

5.1 The Fund’s long-term investment performance history has been above benchmark when considered over a one, three and ten year timeframe, as evidenced in appendix A. However, when looked at over a five year timeframe, the performance is slightly lower than benchmark.

5.2 In the nine months up to 31 December 2014, the Fund’s performance (9.1%) has outperformed benchmark at 6.7% and this is shown in appendix A.

**6. Funding updates**

6.1 Set out below is an update of the funding position as at 31 December 2014, alongside that for March 2013, August 2013 and August 2014 for comparison purposes.

	<b>31 March 2013</b>	<b>31 August 2013</b>	<b>31 August 2014</b>	<b>31 December 2014</b>
	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>
Deficit	4.21	3.28	4.37	5.30
Funding Level	70%	75%	71%	67%
Discount Rate	4.6% p.a.	5.0% p.a.	4.3% p.a.	3.9% p.a.
CPI Inflation	2.6% p.a.	2.6% p.a.	2.3% p.a.	2.3% p.a.

6.2 From the above table, it can be seen that since 31 August 2014, the funding level has fallen to 67%. The main reason for this has been the continued fall in gilt yields which has led to an increase in the value of the liabilities. The “net” yield (i.e. discount rate less

CPI inflation) as at 31 December 2014 was 1.6% p.a., which was lower than that seen at 31 August 2014 (and also 31 March 2013) of 2.0% p.a.

- 6.3 Gilt yields remain at historically low levels at present and it still remains to be seen as to whether markets will revert back to the levels seen in August 2013 (on which many contribution rates following the valuation were set).
- 6.4 Despite the continued fall in gilt yields, greater than expected asset returns since 31 August 2013 have served to offset some of the impact.
- 6.5 It should be noted that the position remains volatile at the moment (in terms of gilt yields and asset returns) and indeed, since 31 December 2014, although the funding level would have fallen during January 2015, we now expect the position to have improved slightly compared to the December position (c68% as of 11 February 2015).

## **7. Next steps**

### **7.1 De-risking options**

- 7.1.1 The Fund is exploring various de-risking options in the context of the overall deficit and risk management of the Fund. In looking at de-risking options, the Fund has considered whether funding requirements and risk for certain groups of employers can be managed more effectively. Aligned to this, the first of these de-risking options to be progressed in the summer of 2015 will be that of cash-flow matching for “orphan liabilities”.
- 7.1.2 “Orphan liabilities are those for whom no employer exists in the Fund to take on responsibility and therefore this responsibility falls back on all other participating employers in the Fund.
- 7.1.3 As at 31 March 2013 there were c£300m of orphan liabilities in the Fund equating to around 2% of the Fund’s overall liabilities.
- 7.1.4 Implementing a cash-flow matching strategy is essentially an opportunity to stabilise the funding position i.e. to sustain a fully funded position in current market conditions.
- 7.1.5 The focus will be on structuring investment to “fit” with the funding plan and match actual cash-flows from income generated by the investments. This structuring of investments is being covered in more detail in a report to the Investment Advisory Sub-Committee.
- 7.1.6 This strategy will reduce materially other participating employers’ exposure to the orphan liabilities and can accept future orphaned or other liabilities.
- 7.1.7 Importantly this cash-flow matching strategy would not have an impact on the funding position of the wider Fund.

- 7.1.8 In a wider context, this strategy can be utilised as essentially a “low risk bucket” for a longer term strategy if different investment strategies are evolved for different employer buckets.
- 7.2 Data cleansing
- 7.2.1 The Fund is looking to drive forward improvements in data quality in partnership with participating employers.
- 7.2.2 Having “cleaner” data will help to ensure the provision of more accurate valuation results and therefore, in turn, tighten up the funding position for each individual employer. This will be borne out through the employer contribution rates and liabilities shown on annual accounting standards.
- 7.2.3 Data quality will now also fall under closer scrutiny from the Pensions Regulator (TPR).
- 7.2.4 The Fund has implemented initiatives to increase the flow of data electronically and is looking at means to improve data quality overall, predominantly through its own internal resources.
- 7.3 Employer engagement
- 7.3.1 As with most strategies the Fund looks to implement, engagement is vital. The Fund will look to commence wider engagement with employers on the deficit and risk management of the Fund, taking into consideration differing risk appetites and covenant strengths. This engagement will form an important part of the consideration and ultimately implementation of de-risking strategies.

## **8. Financial implications**

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

There are financial implications associated with the overall funding level of the Fund, particularly as this will be played out at the 2016 actuarial valuation in terms of the contributions rates set for participating employers.

## **9. Legal implications**

- 9.1 The report contains no direct legal implications, however indirectly the governance of deficit and risk management strategies will need to be considered..

## **10. Equalities implications**

- 10.1 The report contains no direct equalities implications.

**11. Environmental implications**

11.1 The report contains no direct environmental implications.

**12. Human resources implications**

12.1 The report contains no direct human resources implications.

**13. Corporate landlord implications**

13.1 The report contains no direct corporate landlord implications.

**14. Schedule of appendices**

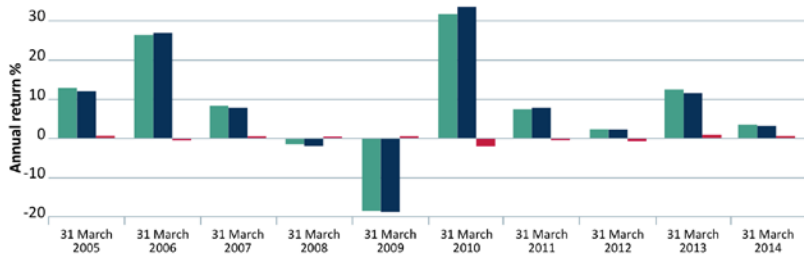
14.1 Appendix A: Fund's ten year investment performance history versus benchmark and recent investment performance against the market environment

# Appendix A: Investment Performance



## Financial year/period to 31 March 2014

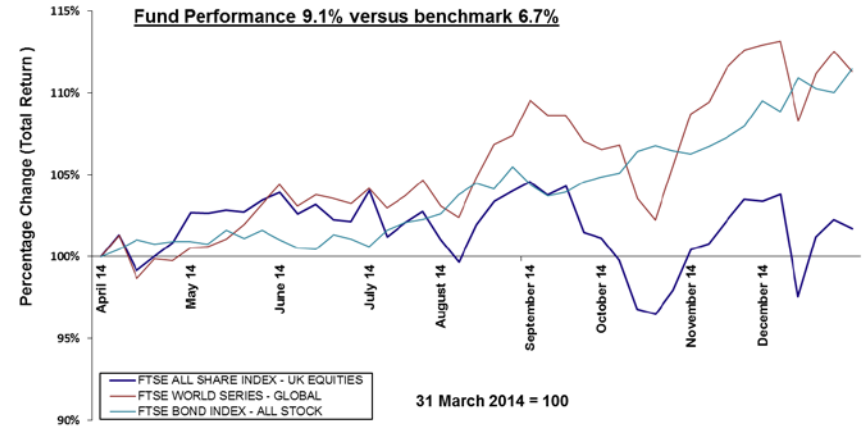
Ten-year annual performance ■ Fund ■ Benchmark ■ Relative



	One year	Three years	Five years	Ten years
<b>Fund</b>	3.5	6.0	10.9	7.6
<b>Benchmark</b>	3.1	5.5	11.1	7.5
<b>Relative</b>	0.4	0.5	(0.2)	0.1

## Recent Investment Performance and Market Environment

Nine months to 31 December 2014



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## Yield information, and market implied RPI since the actuarial valuation

	31/03/2013	31/08/2013	31/03/2014	31/12/2014
<b>Fixed yield</b>	3.2%	3.6%	3.5%	2.5%
<b>Index linked yield</b>	-0.4%	0.0%	-0.1%	-0.8%
<b>Market implied RPI</b>	3.6%	3.6%	3.6%	3.3%

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# Pensions Committee

18 March 2015

<b>Report title</b>	Service Plan Monitoring 2014/15 Quarter Three	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	David Kane	Head of Finance
	Tel	01902 554423
	Email	<a href="mailto:david.kane@wolverhampton.gov.uk">david.kane@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Geik Drever	Strategic Director of Pensions
	Tel	01902 552020
	Email	<a href="mailto:geik.drever@wolverhampton.gov.uk">geik.drever@wolverhampton.gov.uk</a>

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## Recommendation(s) for action or decision:

The Committee is recommended to note:

1. Performance against the Fund's key performance indicators as at the end of the third quarter;
2. The forecast outturn against operating budgets as at the end of the third quarter, which is an under spend of £892,000.

## 1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on performance against key performance indicators (KPIs) and the forecast outturn for the year against operating budgets as at the end of the third quarter.
- 1.2 The KPIs and operating budgets were approved by the Committee on 26 March 2014 as part of the Service Plan 2014-2019, a full copy of which can be found on the Fund's website: [www.wmpfonline.com](http://www.wmpfonline.com).

## 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 Activities against the plan continue in line with objectives. An abridged summary of performance against KPI's is included in Appendix 2.
- 2.3 Performance against some pension administration objectives has deteriorated due to the large increase in manual calculations required while LGPS 2014 system upgrades were being developed by our software provider. It is expected that performance will improve to former levels once the upgrades have been completed; this has begun to occur with some objectives during the last two quarters.

## 3.0 Forecast outturn against operating budget 2014/2015

- 3.1 The following table sets out the forecast outturn compared with the Fund's operating budget as at the end of the third quarter.

Budget Heading	Approved Budget 2014/15 £000	Forecast 2014/15 £000	Forecast Variance £000
Employees	4,513	3,919	(594)
Premises	344	323	(21)
Transport	69	31	(38)
Communications and Computing	740	800	60
Investment Management and Advice	11,398	11,507	109
Other	2,062	1,945	(117)
Support Services	523	546	23
Service development	350	50	(300)
<b>Total Expenditure</b>	<b>19,999</b>	<b>19,121</b>	<b>(878)</b>
Miscellaneous Income	(530)	(544)	(14)
<b>Net Expenditure</b>	<b>19,469</b>	<b>18,577</b>	<b>(892)</b>

- 3.2 Budgets have been forecast using a combination of reviewing spend to date and considering plans for the remainder of the financial year. A prudent approach has been taken in forecasting the cost of those plans, and the figures set out above are therefore likely to be subject to change by year-end.
- 3.3 The forecast under spend has arisen primarily on staffing budgets (£492,000), due to a number of posts being held vacant, or in the process of being recruited to, during the year to date. In addition, there are forecast underspends on staff training (£102,000) and service development (£300,000).
- 3.4 The other significant variance is on investment management and advice, for which an over spend of £109,000 is forecast. However, since this is heavily influenced by investment performance, this is particularly subject to change during the remainder of the year.
- 3.5 The Fund, like all public sector bodies, 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 financial implications are discussed in the body of the report.

#### **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 equalities implications.

#### **7.0 Environmental implications**

- 7.1 This report has no environmental implications.

#### **8.0 Human resources implications**

- 8.1 The report has no human resources implications.

#### **9.0 Corporate landlord implications**

- 9.1 This report has no corporate landlord implications.

## **10.0 Schedule of background papers**

- Pension Fund Business Plan 2014-19, Report to Pensions Committee, 26 March 2014
- WMPF Medium-term Financial Plan Update and 2014/15 Operating Budget, Report to Pensions Committee, 26 March 2014
- Service Plan Monitoring 2014/15, Report to Pensions Committee, 24 September 2014
- Service Plan Monitoring 2014/15 Quarter Two, Report to Pensions Committee, 10 December 2014

WMPF Service Plan 2014-19  
Key Objectives

Appendix 1

Activity	Benchmark Measurement	Target	Frequency	Comments
<b>Quality procedures and practices</b>				
<b>a) Maintain Quality Accreditations</b>	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. The Fund has been successful in achieving the LGC Investment Award for skills and knowledge together with being shortlisted for 3 further awards in the communication and innovation categories due to be announced on 25 February 2015.
<b>b) Respond to best practice</b>	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.
<b>c) Respond to legislative changes</b>	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.
<b>d) Data quality</b>	To ensure bulk validation of incoming data	Maintenance of regular checks	Continuous with quarterly reports	Bulk data validation consistently maintained and reviewed. The Compliance and Risk Manager has undertaken a full review of the Fund's Information Governance management implementing all processes from the City Council to be approved by pension committee in March 2015.

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<b>Drive progress through performance improvement</b>				
<b>a) Improve data quality standards to meet regulatory requirements</b>	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, except for a few isolated areas for which data cleansing initiatives are being explored. 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>b) Develop cross-cutting key performance indicators focused on service priorities</b>	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	Monthly	Revised KPIs have been implemented with effect from January 2015 and these have been monitored and amended where necessary. Standards are being met in the majority of cases, although performance has been below target in some areas of pension administration following the implementation of LGPS 2014.
<b>c) Manage performance through focused and targeted action</b>	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
<b>Develop and implement customer engagement strategies</b>				
<b>a) Develop, review and consult upon and implements engagement strategies</b>	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 an 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. Recent questionnaires indicate that 88% of members believe the Fund provides a service that is satisfactory or better, with 37% rating it excellent. The fund has also devised a customer engagement strategy to incorporate customer journey mapping which is being piloted with the LGA in the roll-out of this year's ABS statements.
<b>b) Hold AGM and mid-year reviews annually for employers</b>	Events held in summer and winter each year and favourably received	Two events per year with respondents providing 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 attended by a variety of employer groups, trade unions and Trustees. The AGM was held on 11 December with feedback from the session noting an above target satisfaction response.
<b>c) Develop communication with stakeholders' needs in mind</b>	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 governance structure.
<b>d) Implement and review customer journey mapping (CJM) programme</b>	CJM programme to be implemented with project plan targeting customer segmentation	Processes reviewed by customers on a quarterly basis	Quarterly	Comprehensive CJM programme is being implemented following the pilot delivery with LGA.

Activity	Benchmark Measurement	Target	Frequency	Comments
<b>Management of risk strategies</b>				
<b>a) Regular risk management reviews</b>	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>b) Review of major changes and new activities of business</b>	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. The Compliance Manager is taking this forward for a full review as part of next year's service planning.
<b>c) Develop and maintain risk management approach in order to give annual assurance statement</b>	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.
<b>d) Develop and implement business continuity planning</b>	Review/approval from SMT	Full test of business continuity plan to be completed by Q2 2014	Annual review	The business continuity policy has been reviewed and updated in March 2015 with a full annual review to be completed each year. A full test of the plan will be implemented once staff changes are complete.
<b>Review and implement investment strategy</b>				
<b>a) Review of investment strategy</b>	Annual asset allocation review/SIP	Ensure investment strategy remains appropriate and has regard to Fund's liabilities, funding position and contribution strategy	Annual with quarterly monitoring	Investment strategy review approved in 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>b) Implementation of investment strategy</b>	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 have been put in place following OJEU tender. Reshaping of listed equities portfolio to take place in 2015, plus setting-up of internal active global equities management. Streamlining and simplification of portfolio ongoing.
<b>c) Monitoring of performance and portfolio changes</b>	Reporting to investment Advisory Sub-Committee	Ensure investment 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.
<b>d) Voting and implementation of ESG policies</b>	Reporting to Pensions Committee and Investment Advisory Sub-Committee/SRI Statement	Comprehensive voting programme and membership of LAPFF and other ESG initiatives	Quarterly	Responsible investment officer is managing an increasingly high workload and strengthening the fund's capacity in this area.

Activity	Benchmark Measurement	Target	Frequency	Comments
<b>Triennial actuarial valuation</b>				
<b>a) Engage with employing bodies and discuss issues</b>	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. Engagement for the 2016 valuation to begin around the summer/autumn of 2015.
<b>b) Collect data for valuation</b>	Formal valuation project plan	Meet agreed timetable	Annually	Data successfully collected for all employers and in accordance with deadlines.
<b>c) Communicate individual results</b>	Actuarial contributions certified as per regulatory requirements	Meet agreed timetable	Next actuarial valuation 2016	Results communicated to all employers in a timely manner.
<b>d) FSS to be updated accordingly to include the Fund's strategy for deficit repair</b>	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.
<b>e) Ongoing review of investment strategy to maintain SIP</b>	Regulatory requirements	Comprehensive and up to date	Annual	SIP to be updated after changes in Investment strategy agreed. To be reinforced with the adoption of a statement of investment beliefs.
<b>f) Regular employer covenant review</b>	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.

<b>Trustee and pension board member training</b>				
<b>a) Maintain and expand the opportunities to build trustee knowledge and understanding</b>	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 a programme of training which aims to develop knowledge throughout the year, developing more complex training in line with the level of experience of a trustee/pension board member. In 2014/2015 Trustees exceed their training hours with an increase of over 100% from the previous year. Pension committee will be asked to approve the training matrix for 2015/2016 and the implementation of a new training timetable to meet the legislative requirement going forward.
<b>b) Monitoring of approved training policy</b>	Wide range of knowledge-building opportunities provided	100% target achieved	Ongoing	The Trustee Management Officer is responsible for maintaining a record of trustee and pension board member 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.
<b>c) Identification of training needs and development of training plan</b>	Wide range of knowledge-building opportunities provided	Training needs identified and addressed	Ongoing	As above
<b>d) To ensure trustees meet TPR competency requirements</b>	TPR framework and standards and training needs analysis	Compliance with CIPFA Knowledge and Skills requirements	Ongoing	As above






Activity	Benchmark Measurement	Target	Frequency	Comments
<b>Developing people</b>				
<b>a) Ensure a skilled, flexible and professional workforce</b>	Staff induction, training plan and appraisal	25 hours per annum for all staff	Ongoing	The in-house training team are 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>b) Measure and improve competency levels through performance appraisals</b>	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 successful completion of the six month review. This process is constantly under review and the business development service are reviewing feedback and ways to improve for next year.
<b>c) Learning and development guide developed and reviewed with due attention to training needs analysis and performance appraisals</b>	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.
<b>d) Cultivate a working environment where knowledge is shared</b>	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.
<b>e) Maintain accreditations including Investors in People (IIP) and Customer Service Excellence (CSE)</b>	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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Objective Reference	No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Reported to:	Previous Score	Date Last Reported	Improvement/Deterioration	
<b>IMPROVE FUNDING LEVEL</b>											
D	1	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%	
<b>TRANSFERS IN</b>											
C	2	Transfer in quotations processed within 10 days of receiving all the required information	90%	ST	20.00%	Dec-14	SMT	20.00%	Nov-14	0.00%	
		Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		0.00%			0.00%		0.00%	
	<b>TRANSFERS OUT</b>										
	2	Transfer out quotations processed within 20 days	90%	ST	35.00%	Dec-14	SMT	40.00%	Nov-14	-5.00%	
		Transfer out payments processed within 10 days	90%		N/A			N/A		N/A	
	<b>RETIREMENTS</b>										
	2	Retirement options to members within 15 days	90%	ST	43.74%	Dec-14	SMT	19.46%	Nov-14	24.28%	
		Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		96.84%			94.43%		2.41%	
		New retirement benefits processed for payment following receipt of election within 5 days	90%		96.04%			92.87%		3.17%	
	<b>DEATHS</b>										
2	Acknowledgement of a death to due within 5 days of receiving the notification.	90%	ST	92.61%	Dec-14	SMT	89.32%	Nov-14	3.29%		
	Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		58.70%			84.00%		-25.30%		
	Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		97.06%			100.00%		-2.94%		
<b>EMPLOYER SERVICE - EMPLOYER SATISFACTION</b>											
A	3	Overall satisfaction score for employers to be 85%	85%	ST	100.00%	2014/2015	ST	98.40%	2013/2014	1.60%	
		<b>EMPLOYER SERVICE - CALLS</b>									
A	3	85% of calls received to the customer and employer helpline to be answered	85%	ST	100.00%	2014/2015	ST	100.00%	2013/2014	0.00%	
		<b>MEMBER SERVICE - CUSTOMER SATISFACTION/SURVEY</b>									
C	4	Overall satisfaction score for members to be 85%	85%	ST	89%	Dec-14	SMT	80%	Sep-14	9.00%	
<b>INVESTMENT RETURNS/OVERALL FUND PERFORMANCE</b>											
B	5	Returns to be within 2% of the benchmark (3 Yr Rolling)	VARIANCE +/- 2%	GD/MC	BENCHMARK 9.54% ACTUAL 10.26% RELATIVE 0.72%	Nov-14	SMT	BENCHMARK 8.69% ACTUAL 9.33% RELATIVE 0.64%	Oct-14	0.08%	
<b>BENEFIT STATEMENTS</b>											
C	6	ABS issued to 95% of eligible active members by 30th September	95%	ST	83%	Sep-14	SMT	87%	Sep-13	-4.00%	
		DBS issued to 85% of eligible deferred members by 30th October	85%		89%	May-14	SMT	88%	Jul-13	1.00%	
<b>CONTRIBUTIONS RECEIVED</b>											
A	7	Main Fund 98% (total value) of contributions to be received by the due date.	98%	RD	99.20%	Dec-14	SMT	99.51%	Nov-14	-0.31%	
		Travel Fund 98% (total value) of contributions to be received by the due date.	98%		100.00%	Dec-14	SMT	100.00%	Nov-14	0.00%	
<b>CLEAN AUDIT REPORT</b>											
A	8	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	0.00	
		Annual audit returns no significant findings	0 significant findings		0			0			

Objective Reference	No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Reported to:	Previous Score	Date Last Reported	Improvement/Deterioration
		Receive an unqualified audit opinion from the Travel Funds external auditors	Clean Report	RH	Yes	Year to 31/03/2014	SMT	Yes	Year to 31/03/2013	0.00
		Annual audit returns no significant findings	0 significant findings		0			0		
<b>EXTERNAL ACCREDITATION</b>										
A	9	The Fund to be shortlisted for all of the awards in which it is entered.	100%	RH	Applications 10 No. Pending 0 No. Shortlisted 5 Percentage Shortlisted  50%	Dec-14	SMT	Applications 10 No. Pending 3 No. Shortlisted 5 Percentage Shortlisted  71%	Nov-14	-21.43%
<b>SICKNESS ABSENCE</b>										
A	10		6 days p.a.	ALL	1.80	Dec-14	SMT	2.40	Sep-14	0.60
					1.97	Apr-Dec 14		2.04	Apr-Dec 13	0.07
<b>COST PER MEMBER</b>										
A	11	Administration cost per member to be reduced from budgeted figure of £24	<£24	ALL	£19.21	Mar-14	SMT	£20.48	Mar-13	£1.27
<b>TRAINING HOURS</b>										
A	12	Fund staff should undertake a minimum of 25 hours CPD on average per annum	25 hours	ALL	10.09	Dec-14	SMT	7.00	Sep-14	3.09
<b>DATA QUALITY</b>										
A	13	<b>Common Data</b> Missing forename(s) 0%  0% Missing surname 0%  0% Incorrect gender for member's title 0%  0% Gender is not male or female 0%  0% Invalid or temporary NI number 0%  0.38% Missing date of birth 0%  0% Invalid date of birth (this includes members over 75 and who are still active or members under 16 and not a beneficiary) 0%  0.01% Date of birth is after date joined scheme 0%  0% Member has no address 0%  2.62% Missing postcode 0%  3.77% Missing scheme retirement date 0%  0.04% Missing date joined pensionable service 0%  0% No entry in status history does not match current status 0%  0% Last entry in status history does not match current status 0%  2.23% Category of membership status not on member record 0%  0% <b>Conditional Data</b> Unavailable at present		ST		Dec-14	SMT	N/A	N/A	N/A
<b>TRUSTEE TRAINING</b>										
A	14	Satisfaction rate from feedback of Trustee training events to be 90%	90%	RH	100.00%	2014/2015	SMT	97.82%	2013/2014	2.18%
<b>INFORMATION TO BE PUBLISHED QUARTERLY</b>										
A	15	Expenditure exceeding £500 Transactions on a Government Procurement Card Procurement information Invitations to tender for goods and/or services with a value that exceeds £5,000. Procurement information Contracts, commissioned activity, purchase orders, framework agreements and any other legally enforceable agreement with a value that exceeds £5,000.	31-Dec-14	DK	29-Dec-14 29-Dec-14 29-Dec-14 05-Jan-15	Dec-14	SMT	N/A	N/A	N/A
<b>STAFF TURNOVER</b>										

Objective Reference	No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Reported to:	Previous Score	Date Last Reported	Improvement/Deterioration
A	16	Staff turnover not to exceed 5% in a financial year <i>(Calculated as no. of leavers/no. of posts at start of year)</i>	5%	RH	 4.95%	Apr-Dec 14	SMT	 13.74%	2013/2014	 8.79%

OBJECTIVES KEY	
A	To be a top performing fund
B	To achieve target investment returns
C	To provide excellent customer service
D	To meet our funding strategy

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# Pensions Committee

18 March 2015

<b>Report title</b>	Service Plan 2015-2020	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	David Kane	Head of Finance
	Tel	01902 554423
	Email	<a href="mailto:david.kane@wolverhampton.gov.uk">david.kane@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	<a href="mailto:geik.drever@wolverhampton.gov.uk">geik.drever@wolverhampton.gov.uk</a>

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## Recommendation(s) for action or decision:

1. The Committee is recommended to approve the Service Plan 2015-2020 as appended, including:
  - a. The operating budget for 2015/16;
  - b. The medium term financial plan for the period to 2019/20.

## 1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the Service Plan 2015-2020, which includes the operating budget for 2015/16, and medium term financial plan for the five years up to and including 2019/20.

## 2.0 Background

- 2.1 On 26 March 2014, the Committee approved the Service Plan 2014-2019. This has formed the basis of performance and budget monitoring during the current financial year. Over the last few months, the Service Plan has been subject to a detailed review, and updated to reflect known and anticipated changes that have occurred since March 2014.
- 2.2 Producing a Service Plan is a matter of good practice, and is the key means by which the Fund can articulate and communicate its medium term strategy to stakeholders, including members, employers, and employees. This includes a full financial evaluation of the strategy, expressed as a medium term financial plan. The approved Service Plan will be published on the Fund's website.
- 2.3 LGPS regulations allow for the costs of administering the Fund to be charged to the Fund itself, and not directly to employers. The actuary makes provision in his valuation process for such costs.
- 2.4 Being able to demonstrate value for money is crucial for the Fund and a key measure of this is cost per scheme member. To reflect this, the budget and forecast figures quoted in this report are also expressed in terms of cost per scheme member.
- 2.5 Table 1 provides cost per scheme member for the Fund for 2013/14, compared to the averages for other metropolitan funds and all LGPS funds in England, and demonstrates that the Fund's management costs are significantly lower than both of these.

**Table 1 - Cost per Scheme Member 2013/14**

	Administration (£/member)	Investment Management (£/member)	Total Management Costs (£/member)
West Midlands Pension Fund	19.21	39.91	59.12
Other LGPS Funds:			
- Metropolitan Funds	22.38	47.74	70.12
- All English Funds	34.52	123.94	158.46

- 2.6 Regular monitoring of the budget, including the preparation of a forecast outturn, will be undertaken throughout the year, and reported to Pensions Committee at quarterly intervals.



### 3.0 Service Plan 2015-2020

- 3.1 The Service Plan for 2015-2020, which is attached at Appendix A, provides information on key achievements during the current financial year, the key objectives and priorities for 2015/16 and beyond, the key performance indicators (KPIs) that the Fund will use to measure its progress towards achieving those objectives, and the most significant risks presently facing the Fund. It also provides further information about the Fund, its structure, and its approach to skills and knowledge, customer care and investment management.
- 3.2 The Fund has had a number of significant successes during the last year, which are highlighted on page 5 of the Service Plan. These include:
- a) Reducing the administration cost per member from £20.48 to £19.21;
  - b) Maintaining high levels of customer satisfaction;
  - c) Introducing the LGPS 2014 scheme changes, including the move to calculating benefits on a career-average re-valued earnings (CARE) basis;
  - d) Implementing the outcome of the triennial actuarial review for 2013, which set employer contribution rates for the period from 2014/15 to 2016/17;
  - e) Achieving Investors in People Silver and Customer Service Excellence accreditations;
  - f) Winning the Local Government Chronicle Investment Award for Skills and Knowledge in recognition of the Fund's trustee training programme, and being shortlisted for Best Public Sector Communications and Best Innovation in the Pension Age Awards;
  - g) Preparing for the forthcoming reforms to LGPS governance;
  - h) Introducing a new financial system, Agresso, in conjunction with Wolverhampton City Council, from 1 April 2014;
  - i) Achieving a return on investments of 3.5%, beating the benchmark return of 3%;
  - j) Reviewing and simplifying the Fund's investment portfolio, achieving cost savings;
  - k) Continuing the move towards electronic working for dealing with members and employers.
- 3.3 The Fund's operating environment continues to present a number of significant challenges. The Service Plan identifies eight key drivers of change that will impact on the Fund over the medium term, and that have been the focus of the development of the Plan. These are discussed on page 7 of the plan, and are as follows:
- a) Governance reforms
  - b) Actuarial valuation 2016
  - c) The impact of declining cash flow on investment strategy
  - d) Implementing an electronic business model
  - e) The effect of declining returns on the Fund's pensions liability
  - f) Risk management
  - g) Data quality
  - h) Employer base expansion

3.4 Through consideration of its ongoing activities, and the drivers for change outlined at paragraph 3.3, the Fund has identified the following as its key objectives for the period 2015-2020:

**Short-term (next year)**

- a) Continue to develop and implement revised investment strategy.
- b) Implement new LGPS governance structure and prepare for future LGPS reforms.
- c) Develop the Fund's operational flexibility to enable staff and the Fund to meet the changing needs of our industry.
- d) Begin the process of GMP reconciliation.
- e) Implement risk-based investment strategy.
- f) Embed LEAN ways of working across the Fund
- g) Work with employers to improve data cleanliness.

**Medium-term (next three years)**

- h) Prepare for actuarial valuation 2016
- i) Explore opportunities to generate revenue to reduce net administrative costs
- j) Segregate employers based on covenant strength for the purposes of investment strategy
- k) Continue to develop the Fund's electronic business model to continually improve data quality and ensure continued cost efficiencies.
- l) Reduce the cost of investment management, through a mix of investment strategy and increasing in-house management.

**Long-term (next five years)**

- m) Continue to develop Fund strategies that are affordable for employers, and continue to work with employers to ensure that they understand their liabilities.
- n) Develop the investment strategy and returns expectations of the Fund to reflect the maturity of the Fund's membership.

**4.0 Operating Budget 2015/16**

- 4.1 The operating budget for 2015/16 has been developed to reflect the objectives and priorities set out in the Service Plan. All existing budgets have been subject to thorough review for ongoing relevance and adequacy, and reduced or removed where appropriate.
- 4.2 The recommended operating budget for 2015/16 is £18.0 million, a decrease of £1.5 million from the 2014/15 budget. Table 2 sets out the recommended budget by expenditure type, compared with the 2014/15 budget.

**Table 2 – Operating Budget 2015/16**

	<b>2014/15 Budget £000</b>	<b>2015/16 Budget £000</b>	<b>Net Growth/ (Saving) £000</b>
Employees	4,513	4,797	284
Premises	344	328	(16)
Transport	69	60	(9)
Other	1,967	1,923	(44)
Investment Management and Advice	11,133	9,559	(1,574)
Service Development	350	350	-
Communications and Computing	719	702	(17)
Support Services	523	454	(69)
Miscellaneous Income	(150)	(155)	(5)
<b>Net Budget</b>	<b>19,468</b>	<b>18,018</b>	<b>(1,450)</b>
<b>Cost per scheme member</b>	<b>70.22</b>	<b>63.84</b>	<b>(6.38)</b>

- 4.3 The main reasons for the net reduction in the operating budget are:
- Savings on investment management fees resulting from portfolio restructuring and an increase in internal investment management (£1.6 million);
  - Growth in pay costs due to pay award, increments and increases in the employer's pension contribution rate, net of savings on National Insurance (£264,000);
  - Growth due to the inclusion of investment advisors for the new Investment Strategy Panel (£48,000);
  - Savings on the custodian budget following the agreement of a new contract (£131,000);
  - Savings on accountancy services previously provided by the council, due to those functions transferring in their entirety to the Fund's own Finance team (£89,000).
- 4.4 The budget includes provision of £350,000 for service development activities. For 2015/16, these include GMP reconciliation with HMRC, wider data quality work, and the implications for administration of pensions freedoms introduced by the Chancellor of the Exchequer's 2014 Budget Statement. The level of this budget will be reviewed annually.
- 4.5 The Fund's staffing establishment stands at 116 full-time-equivalent employees. This is an increase of one from 2014/15.
- 4.6 A charge of £150,000 for the administration of the West Midlands Integrated Transport Authority Pension Fund is included in miscellaneous income.

## **5.0 Medium Term Financial Plan**

- 5.1 Table 3 (following page) sets out the Fund's forecast operating budgets for the next five years. These generally assume a continuation of existing activities, plus the service development initiatives outlined above, adjusted for inflation, pay awards and other anticipated changes.
- 5.2 The forecasts reflect assumed growth of 6% per year in the value of the Fund's investment assets (inclusive of income), which causes growth in investment management and advice costs. They also reflect the increased cost of the next triennial actuarial valuation to be carried out in the 2016/17 financial year (and the following one, in 2019/20).
- 5.3 Table 4 (page after next) provides forecasts for all Fund activities from 2014/15 to 2019/20. There are some important caveats concerning these forecasts which are discussed at paragraph 5.5.

**Table 3 – Forecast Operating Budgets 2014/15 to 2019/20**

	<b>2014/15 Budget £000</b>	<b>2015/16 Budget £000</b>	<b>2016/17 Forecast £000</b>	<b>2017/18 Forecast £000</b>	<b>2018/19 Forecast £000</b>	<b>2019/20 Forecast £000</b>
Employees	4,513	4,797	5,067	5,196	5,314	5,420
Premises	344	328	325	331	337	343
Transport	69	60	61	62	63	64
Other	1,967	1,923	2,211	2,000	2,039	2,339
Investment Management and Advice	11,133	9,559	10,133	10,741	11,385	12,068
Service Development	350	350	350	350	350	350
Communications and Computing	719	702	716	730	744	758
Support Services	523	454	463	472	481	490
Miscellaneous Income	(150)	(155)	(155)	(155)	(155)	(155)
<b>Net Budget</b>	<b>19,468</b>	<b>18,018</b>	<b>19,171</b>	<b>19,727</b>	<b>20,558</b>	<b>21,677</b>
<b>Cost per scheme member</b>	<b>70.22</b>	<b>63.84</b>	<b>66.45</b>	<b>66.93</b>	<b>68.30</b>	<b>70.45</b>
<i>Cost per scheme member (excluding impact of growth in investment assets)*</i>	70.22	63.84	64.46	62.92	62.24	62.30

\* Note: the medium term forecasts assume that investment assets will increase in value by 6% per year. This causes increases in investment managers' fees, which distorts comparison of cost per member between years. The figure shown on this line excludes the impact of growth in investment assets after 2015/16, in order to enable like-for-like comparison.

**Table 4 – Medium Term Forecasts**

	<b>2014/15 Forecast £m</b>	<b>2015/16 Forecast £m</b>	<b>2016/17 Forecast £m</b>	<b>2017/18 Forecast £m</b>	<b>2018/19 Forecast £m</b>	<b>2019/20 Forecast £m</b>
Contributions Receivable	(450.3)	(447.1)	(467.0)	(477.2)	(485.8)	(494.5)
Other Income	(16.6)	(16.8)	(17.1)	(17.4)	(17.7)	(18.1)
Benefits Payable	496.6	520.0	548.1	577.1	607.1	638.1
Other Payments	0.3	0.3	0.3	0.3	0.3	0.3
<b>Net Cost of Pensions</b>	<b>30.0</b>	<b>56.4</b>	<b>64.3</b>	<b>82.8</b>	<b>103.9</b>	<b>125.8</b>
Investment Income	(141.2)	(148.9)	(156.6)	(164.6)	(172.8)	(181.1)
Gains in Value of Investments	(464.0)	(489.4)	(514.5)	(540.9)	(567.7)	(595.0)
<b>Return on Investments</b>	<b>(605.2)</b>	<b>(638.3)</b>	<b>(671.1)</b>	<b>(705.5)</b>	<b>(740.5)</b>	<b>(776.1)</b>
<b>Management Expenses (Operating Budget)</b>	<b>19.4</b>	<b>18.0</b>	<b>19.2</b>	<b>19.7</b>	<b>20.6</b>	<b>21.7</b>
<b>Net Increase in the Fund</b>	<b>(555.8)</b>	<b>(563.9)</b>	<b>(587.6)</b>	<b>(603.0)</b>	<b>(616.0)</b>	<b>(628.6)</b>
Opening Fund Balance	10,144.4	10,700.2	11,264.1	11,851.7	12,454.7	13,070.7
<b>Closing Fund Balance</b>	<b>10,700.2</b>	<b>11,264.1</b>	<b>11,851.7</b>	<b>12,454.7</b>	<b>13,070.7</b>	<b>13,699.3</b>

5.4 Table 5 provides the key assumptions used in preparing the medium term forecasts.

**Table 5 – Key Assumptions**

	2015/16	2016/17	2017/18	2018/19	2019/20
Pay Award	2.2%	2.0%	2.0%	2.0%	2.0%
Consumer Price Inflation (September of preceding year)	1.2%	2.0%	2.0%	2.0%	2.0%
Increase in Total Number of Members	2.3%	2.2%	2.2%	2.1%	2.1%
Gross Growth in Investment Assets	6.0%	6.0%	6.0%	6.0%	6.0%

5.5 With regard to the medium term forecasts shown in Table 4, it should be noted that these are highly subject to change, in particular because:

- a) Contributions for 2017/18 to 2019/20 will be influenced by the 2016 actuarial valuation, and could be significantly different from the figures shown here;
- b) The local government sector has experienced, and will continue to experience for the foreseeable future, a combination of cost pressures and funding reductions, and it is not yet possible to quantify the extent to which this will translate into staffing reductions;
- c) Investment income and growth in asset value are very difficult to forecast, and are likely to demonstrate much greater year-on-year volatility than shown here.

## **6.0 Financial implications**

6.1 The financial implications are discussed in the body of the report.

## **7.0 Legal implications**

7.1 This report has no legal implications.

## **8.0 Equalities implications**

8.1 This report has no equalities implications.

## **9.0 Environmental implications**

9.1 This report has no environmental implications.

## **10.0 Human resources implications**

10.1 The report has no human resources implications.

## **11.0 Corporate landlord implications**

11.1 This report has no corporate landlord implications.

## **12.0 Schedule of background papers**

- Pension Fund Business Plan 2014-2019, Report to Pensions Committee, 26 March 2014
- WMPF Medium Term Financial Plan Update and 2014/15 Operating Budget, Report to Pensions Committee, 26 March 2014

## **13.0 Schedule of Appendices**

13.1 Appendix A: Service plan for 2015 - 2020





# Service Plan 2015 – 2020



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## Fund statistics

### Goals of the Fund

The Fund's core objectives are:

to be a  
top-performing  
fund

to achieve  
target  
investment  
returns

to provide  
excellent  
customer  
service

to meet our  
funding  
strategy

#### Pension benefits (2013/14)

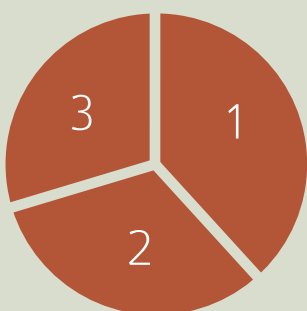
£472m

#### Customer satisfaction

98.4% of employers were satisfied with the level of customer service received from the Fund

100% of members were satisfied with the level of customer service received from the Fund.

#### Membership of the Fund (31 December 2014)



275,538

1 Active members 104,165  
2 Deferred members 89,989  
3 Pensioner members 81,384

#### Assets of the Fund (31 December 2014)

£11.0bn

#### Scheme employers (31 December 2014)

451

#### Staff employed by the Fund as at 31 December 2014

116

#### Contributions due to the Fund

Authority	Total contributions (2013/14)
Birmingham	£114.5m
Coventry	£32.9m
Dudley	£31.9m
Sandwell	£34.1m
Solihull	£17.0m
Walsall	£30.9m
Wolverhampton	£32.9m
Others	£125.1m
<b>Total</b>	<b>£419.3m</b>

Employer contributions £310.6m  
Employee contributions £108.7m

£419.3m

# Introduction



This business plan for West Midlands Pension Fund is an update of the 2014-2019 plan and, as before, sets out to explain:

- the context in which the organisation works;
- its current activities;
- the action it proposes to take over both the medium-term (three years) and long-term (five years and beyond).

The plan includes information to provide some context and references other relevant information. It is also produced to evaluate the current position and how the Fund will respond to both current and emerging issues.

The Fund has 275,538 members and 451 Scheme employers with an interest in the Fund as of 31 December 2014. The Fund's main objective is to provide a quality, cost-effective and timely service to its members.

There are three main categories of membership, comprising of actively contributing members employed by scheme employers (104,165), members who have left employment but who have a deferred entitlement (89,989) and members in receipt of a pension (81,384).

The Fund is also responsible for the management of the West Midlands ITA Pension Fund, which has 5,190 members (at 31 December 2014), and for which the Fund makes a charge for administration of £150,000 per year.

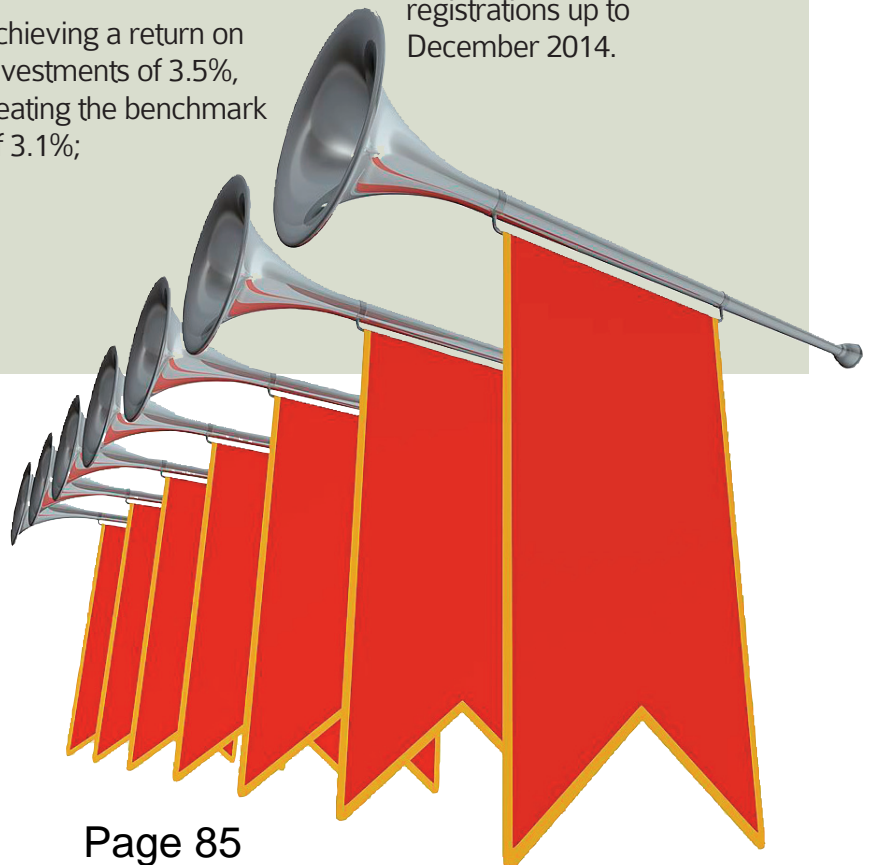
A diversified portfolio of assets amounting to approximately £11 billion (as at 31 December 2014) is managed primarily in-house by a team of investment professionals, having due regard to risk and return with the Fund's objectives and funding requirements.

Comments on issues relating to this plan can be made to: [pensionfundenquiries@wolverhampton.gov.uk](mailto:pensionfundenquiries@wolverhampton.gov.uk)

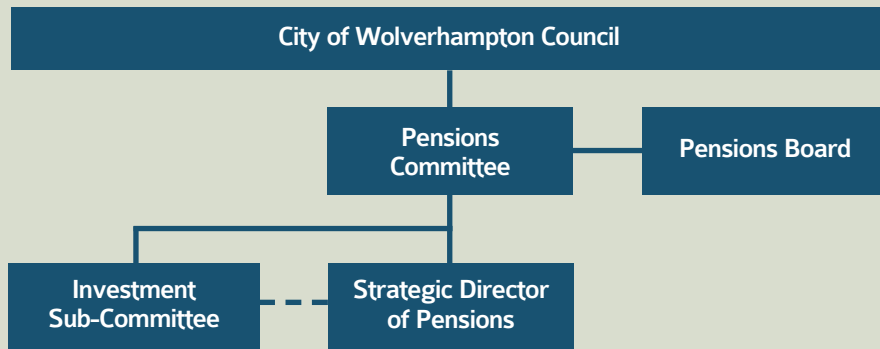
## Recent Key Achievements 2014/15

Within the last year, the Fund has achieved key performance targets and maintained important priority themes, including:

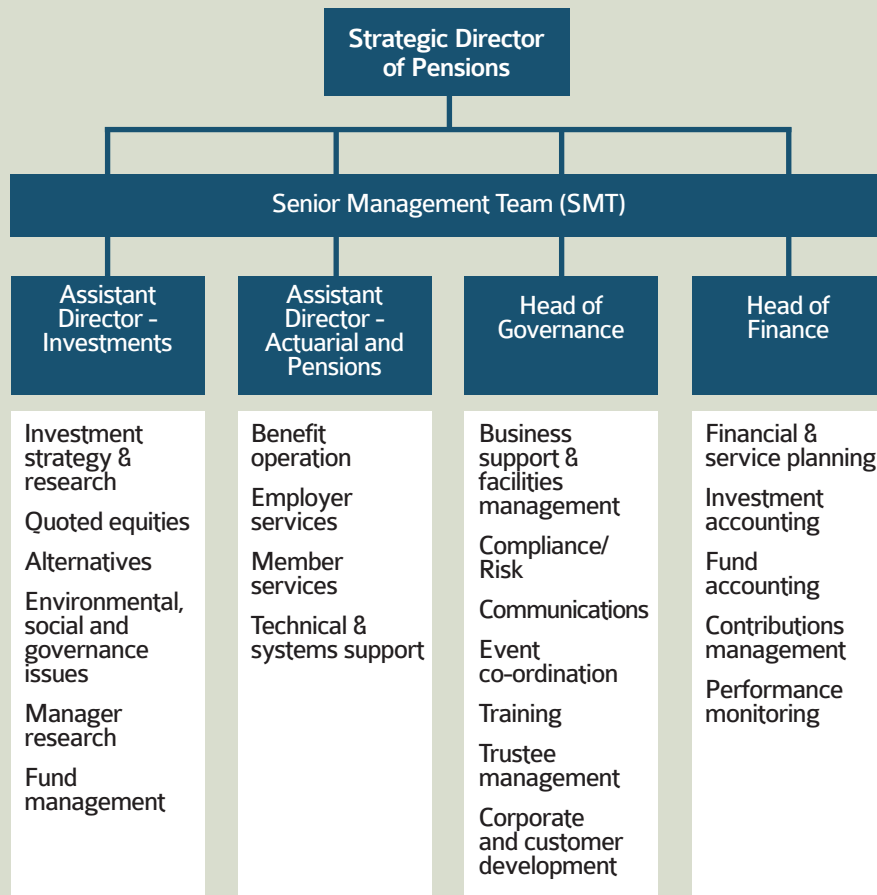
- maintaining high levels of customer satisfaction;
- successfully implementing the outcome of the triennial valuation 2013;
- effectively managing the introduction of the new LGPS 2014 scheme and regulations;
- unit costs of administration reduced from £20.48 to £19.21;
- achieving Investors in People Silver and Customer Service Excellence accreditations;
- implementing a new finance system in conjunction with City of Wolverhampton Council;
- winning the Local Government Chronicle Investment Award, Skills and Knowledge in recognition of our trustee training programme and shortlisted for Best Public Sector Communications and Best Innovation in the Pension Age Awards;
- preparing for the forthcoming reforms to the governance of LGPS funds;
- achieving a return on investments of 3.5%, beating the benchmark of 3.1%;
- simplifying the investment portfolio, improving portfolio management arrangements and achieving cost savings;
- continuing to develop and promote the Fund's self-service web platform ('the web portal') for member and employer access to pension records, with more than 20,000 registrations up to December 2014.



# Operational Organisation



The pensions service is structured as follows:



# Drivers of Change

The Fund has identified the following eight key drivers of change that will impact on its operating environment over the medium term.

## 1) LGPS Reforms

Significant changes to the governance of the Fund and of the LGPS generally take effect from April 2015. These include the establishment of a Pensions Board at the Fund, whose role will be to assist in the good governance of the scheme. In addition, there will be a national Scheme Advisory Board, and two cost control mechanisms which will seek to monitor and contain the overall cost of the LGPS at a national level. Further LGPS reforms are awaited in terms of greater LGPS collaboration and investment management.

## 2) Actuarial Valuation 2016

The next regular valuation of the Fund's projected pension liabilities, which will determine employer contributions from April 2017 onwards, is due to be reported in 2016/17. Due to the increasing number of employers and the financial constraints faced by the public sector generally, the valuation process is expected to increase in challenge and complexity.

## 3) The Impact of Declining Cash Flow on Investment Strategy

At present, the Fund receives more in contributions and investment income than it pays out in benefits; however, as it continues to mature, the ratio of pensioners to actively-contributing members will increase, meaning that the cash surplus will decrease and

eventually reverse. This will have profound implications for the Fund's investment strategy, which will need to adapt to reflect and accommodate the changing liquidity requirements.

## 4) Implementing an Electronic Business Model

The Fund is keen to increase the extent to which it uses information technology to offer an enhanced service to both members and employers, whilst also delivering operational efficiencies and securing improvements in data quality.

## 5) The Effect of Declining Returns on the Fund's Pensions Liability

The prospects for market returns on investments are generally low, and this will impact on the maturing profile of our pension liabilities. It will be critical for the Fund to configure its investment assets in such a way as to monitor and respond to the risks associated with this.

## 6) Risk Management

Given the financial constraints currently faced by the public sector as a whole, and the local government sector in particular, the risk of employers facing critical financial hardship is inevitably heightened. Monitoring, and providing support to employers, will be key to managing this. In essence, we look to provide investment solutions for the Fund's liability profile, based on employers' risk appetite and covenant strength.

## 7) Data Quality

With the increasing complexity of LGPS regulations, the importance of the Fund holding accurate, up-to-date information about its members is greater than ever. The Fund will be working with employers to ensure that appropriate systems are in place to provide the requisite assurances around data quality.

## 8) Employer Base Expansion

The Fund is currently experiencing a major increase in the number of employers, primarily due to local schools converting to academy status. This has resulted in additional administration requirements and complexity for the Fund, and managing these without adversely impacting on the efficiency of its activities will be a key challenge over the medium term.

# Key Objectives 2015 - 2020

To deliver the key priorities set out in the following pages, we will need to work towards key objectives. We have categorised these into short-term, medium-term and long-term objectives. They are:

## Short-term objectives

- Continue to develop and implement revised investment strategy.
- Implement new LGPS governance structure and prepare for future LGPS reforms.
- Develop the Fund's operational flexibility to enable staff and the Fund to meet the changing needs of our industry.
- Begin the process of GMP reconciliation.
- Implement risk-based investment strategy.
- Embed LEAN ways of working across the Fund.
- Work with employers to improve data cleanliness.

## Medium-term objectives

- Prepare for actuarial valuation 2016.
- Explore opportunities to generate revenue to reduce net administrative costs.
- Segregate employers based on covenant strength for the purposes of investment strategy.
- Continue to develop the Fund's electronic business model to continually improve data quality and ensure continued cost efficiencies.
- Reduce the cost of investment management.

## Long-term objectives

- Continue to develop Fund strategies that are affordable for employers, and continue to work with employers to ensure that they understand their liabilities.
- Develop the investment strategy and returns expectations of the Fund to reflect the maturity of the Fund's membership.





# Priorities and Implementation Targets

Activity	Benchmark measurement	Target	Frequency
<b>Quality procedures and practices</b>			
<b>a) Maintain quality accreditations</b>	Investors in People (IIP), Investors in Excellence (IIE), Customer Service Excellence (CSE) and shortlisting in industry awards	Reaccreditation/shortlisting for awards	Annual, as available
<b>b) Respond to best practice</b>	Through updates to SMT	Improvements to be identified and reported on regularly	Quarterly
<b>c) Respond to legislative changes</b>	Legislative requirement	Compliance with legislation	Quarterly
<b>d) Data quality</b>	Performance against key performance indicators	Data is accurate and updated on a timely basis	Continuous, with quarterly reports
<b>Drive progress through performance improvement</b>			
<b>a) Improve data quality standards to meet regulatory requirements</b>	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
	Outcome of reviews by the regulator and internal audit	Positive reports by review bodies	Ongoing/annual
<b>b) Develop cross-cutting key performance indicators focused on service priorities</b>	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

Activity	Benchmark measurement	Target	Frequency
<b>Develop and implement customer engagement strategies</b>			
<b>a) Develop, review and consult upon and implement engagement strategies</b>	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and quarterly reporting
<b>b) Hold AGM and mid-year reviews annually for employers</b>	Events held in summer and winter each year and are favourably received	Two events per year with 90% of respondents to feedback stating event was either good or excellent	Report to SMT following event
<b>c) Develop communications with stakeholders' needs in mind</b>	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and quarterly reporting
<b>d) Implement and review customer journey mapping (CJM) programme</b>	CJM programme to be implemented with project plan targeting customer segmentation	Processes reviewed by customers on a quarterly basis	Quarterly
<b>Management of risk strategies</b>			
<b>a) Regular risk management reviews</b>	Annual risk review	To have an action plan for the most significant risks	Annual/quarterly monitoring
<b>b) Review of major changes and new activities of business</b>	Review/approval from Pensions Committee	All Fund risks are adequately managed	Ongoing/ quarterly reviews of risk register
<b>c) Develop and maintain risk management approach in order to give annual assurance statement</b>	Review/approval from Pensions Committee	All Fund risks are adequately managed	Annual review
<b>d) Develop and implement business continuity planning</b>	Review/approval from SMT	Full test of business continuity plan to be completed by Q2 2015	Annual review
<b>Review and implement investment strategy</b>			
<b>a) Review of investment strategy</b>	Annual asset allocation review/Statement of Investment Principles	Ensure investment strategy has regard to Fund's funding position and liabilities	Annual, with quarterly monitoring
<b>b) Implementation of investment strategy</b>	Review/approval by Investment Advisory Sub-Committee	Ensure changes carried out within agreed timescales and cost-effectively	Quarterly
<b>c) Monitoring of performance and portfolio changes</b>	Reporting to Investment Advisory Sub-Committee	Ensure performance at least matches agreed benchmarks	Quarterly
<b>d) Voting and implementation of ESG policies</b>	Reporting to Pensions Committee and Investment Advisory Sub-Committee/ SRI Statement	Comprehensive voting programme and membership of LAPFF and other ESG initiatives	Quarterly

Activity	Benchmark measurement	Target	Frequency
<b>Triennial actuarial valuation</b>			
a) Engage with employing bodies and discuss issues	Consultation programme extended to all participating employers	Meet agreed timetable	Next actuarial valuation 2016
b) Collect data for valuation	Formal valuation project plan	Meet agreed timetable	Annually
c) Communicate individual results	Actuarial contributions certified as per regulatory requirements	Meet agreed timetable	Next actuarial valuation 2016
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
e) Ongoing review of investment strategy to maintain SIP	Regulatory requirements	Comprehensive and up-to-date	Annual
f) Regular employer covenant review	All employer covenants reviewed and necessary actions taken	Risk-based employer covenants	Annual
<b>Trustee and Pensions Board training</b>			
a) Maintain and expand the opportunities to build trustee and Pensions Board knowledge and understanding	CIPFA Skills and Knowledge Framework and the legislative requirements concerning the knowledge of Pensions Board members. Wide range of knowledge-building opportunities provided. Intensive off-site training when required	Minimum of three days' provision to Committee members	Ongoing, with annual report
b) Monitoring of approved training policy	Wide range of knowledge-building opportunities provided	100% target achieved	Ongoing
c) Identification of training needs and development of training plan	Wide range of knowledge-building opportunities provided	Training needs identified and addressed	Ongoing
d) To ensure trustees and Pensions Board meet TPR competency requirements	TPR framework and standards and training needs analysis	Compliance with CIPFA Knowledge and Skills requirements	Ongoing
<b>Developing people</b>			
a) Ensure a skilled, flexible and professional workforce	Staff induction, training plan and appraisal	22 hours' training per annum and appraisals for all staff	Ongoing
b) Measure and improve competency levels through performance appraisals	Annual appraisal	All staff to have up-to-date appraisals	Annual appraisal, with six-month review
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
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
e) Maintain accreditations including Investors in People (IIP) and Customer Service Excellence (CSE)	Investors in People, Customer Service Excellence	Reaccreditation	Annual

# Key Performance Indicators (KPIs)

1	<b>Improve funding level</b>	Funding level to increase from current levels of 70% (taken from IAS26 report)	>70%	
	2	<b>Transfers-in</b>	Transfer-in quotations processed within ten days of receiving all the required information	90%
			Transfer notification of transferred-in membership to be notified to the scheme member within ten days of receiving payment	90%
		<b>Transfers-out</b>	Transfer-out quotations processed within 20 days	90%
		Transfer out payments processed within ten days	90%	
		<b>Retirements</b>	Retirement options to members within 15 days	90%
			Notification of the actual retirement benefits will be issued to the scheme member within five days following receipt of the required information	90%
		New retirement benefits processed for payment following receipt of election within five days	90%	
		<b>Deaths</b>	Acknowledgement of a death to due within five days of receiving the notification.	90%
			Notification of benefits payable to dependents will be issued within five days of receiving the required information	90%
			Payment of death lump sum will be made within ten days of receipt of all the required information	90%
	3	<b>Employer service: employer satisfaction</b>	Overall satisfaction score for employers to be 85%	85%
		<b>Employer and member service: calls</b>	85% of calls received to the customer and employer helpline to be answered	85%
	4	<b>Member service: customer satisfaction survey</b>	Overall satisfaction score for members to be 85%	85%
	5	<b>Investment returns/overall Fund performance</b>	Returns to be within 2% of the benchmark (three-year rolling) - West Midlands Pension Fund	Variance +/- 2%

6	Returns to be within 2% of the benchmark (three-year rolling) - WMITA	Variance <b>+/- 2%</b>	10	<b>Sickness absence</b> 6 days per person per year	<b>6</b> days
	<b>Benefit statements</b> ABS issued to 90% of eligible active members by 30 September	<b>90%</b>	11	<b>Cost per member</b> Administration cost per member to be less than £20	<b>&lt;£20</b>
7	DBS issued to 85% of eligible deferred members by 30 October	<b>85%</b>	12	<b>Training hours</b> Average CPD per Fund employee to be 22 hours or more	<b>22</b> hours
	<b>Contributions received</b> <b>Main Fund</b> 98% (total value) of contributions to be received by the due date	<b>98%</b>	13	<b>Data quality</b> <b>Common data</b> Missing forename(s) Missing surname Incorrect gender for member's title Gender is not male or female Invalid or temporary NI number Missing date of birth Invalid date of birth (this includes members over 75 and who are still active or members under 16 and not a beneficiary) Date of birth is after date joined scheme Member has no address Missing postcode Missing scheme retirement date Missing date joined pensionable service No entry in status history does not match current status Last entry in status history does not match current status Category of membership status not on member record	<b>0%</b> occurrence
<b>ITA Fund</b> 98% (total value) of contributions to be received by the due date.	<b>98%</b>				
8	<b>Clean audit report</b> Receive an unqualified audit opinion from the main Fund's external auditors	<b>Clean report</b>			
9	Annual audit returns no significant findings	<b>No significant findings</b>			
	Receive an unqualified audit opinion from the ITA Fund's external auditors	<b>Clean report</b>			
	Annual audit returns no significant findings	<b>No significant findings</b>			
9	<b>External accreditation</b> a) The Fund to be shortlisted for 75% of the awards in which it is entered	<b>75%</b>			
	b) Retain CSE and IIP accreditations	<b>100%</b>			

**14 Trustee training**

Satisfaction rate from feedback of trustee training events to be 90% **90%**

Attendance rate of trustees at training events **85%**

Amount of training provided to trustees during the year **22**  
hours

**15 Information to be published quarterly**

Expenditure exceeding £500

Transactions on a Government Procurement Card

Procurement information

Invitations to tender for goods and/or services with a value that exceeds £5,000

Procurement information Contracts, commissioned activity, purchase orders, framework agreements and any other legally enforceable agreement with a value that exceeds £5,000

Annual specified date

**16 Staff turnover**

Staff turnover to be in the range 5 - 10% over the course of the financial year **5%-10%**

**17 Availability of online services**

Website and web portal to be available 95% of the time **95%**

Number of members predicted to be registered on web portal by 31 March 2016

**50,000** members

**18 Quarterly accounts**

Days taken to prepare quarterly accounts **20**  
days

**19 Qualifications**

At least 75% of staff to hold a relevant qualification **75%**

# Skills and Knowledge

A major factor in the governance arrangements of the Fund is ensuring Committee members and officers have the relevant skills and knowledge. The Fund's Trustee Training Policy was approved by Pensions Committee in March 2015 and is based on the CIPFA Knowledge and Skills Framework and the legislative duties of the Pensions Board to achieve this objective. As part of the policy, training information is recorded and logged on a trustee training database and the details are reported to Committee annually.

In April 2015, new legislation will require the Fund to introduce a Pensions Board. The Fund worked proactively with employers and trade unions to ensure full compliance with the governance reforms and is one of the first pension funds to establish the Pensions Board. The Fund has prepared for and put in place arrangements to ensure that the Pensions Board is constituted of individual with the requisite skills and knowledge

## CIPFA

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.

It is not the intention that members should individually become technical experts, but that 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.

Following the approval of the Fund's trustee training policy, a summary of training activity undertaken during 2013/14 was reported to Committee together with the outcome of the training needs analysis, which has since been incorporated into the training programme.

## Reporting

The Fund ensures compliance with all regulatory requirements for the skills and knowledge of its trustees and Pensions Board in accordance with the statutory guidance issued by the Scheme Advisory Board. This is measured against the Scheme Advisory Board's benchmarking and performance matrix which the Fund reports on each year. Details will be made available in the Fund's annual report.

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; and
- what training has been delivered against the identified training needs

Officers are expected to demonstrate their professional competency against the framework through appropriate 'continuing professional development' (CPD) arrangements. The Pensions Regulator has issued a code of practice and a strategy for regulating public service pension schemes and the Fund will comply with the requirements.

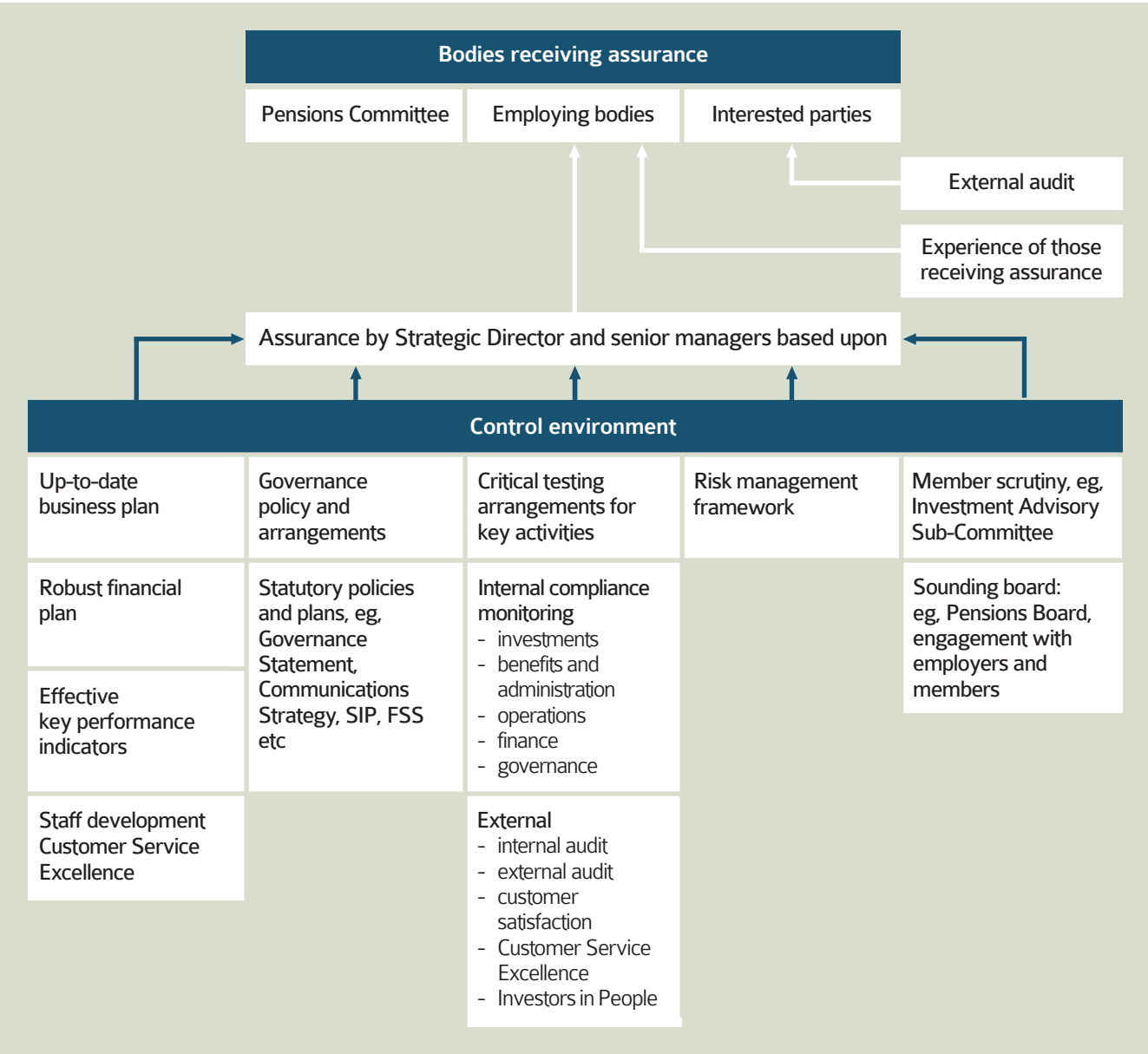
# Risk Management and Assurance

**1) Background**

The Strategic Director and senior staff operate a bespoke assurance framework that has been developed by the Fund, and includes a comprehensive risk management strategy.

**2) Assurance Framework**

The assurance framework is designed to ensure the Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices where appropriate and has high customer service satisfaction. The framework is shown below:





### 3) Risk Management

An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to annual review and quarterly monitoring. It is available to internal and external audit.

The Fund's core objectives, of which risks will be managed against, are outlined on page 3 of this service plan.

#### Priority of Risk Management

The Fund evaluates and manages a wide range of risks. This is done through regular review, analysis and action plans. The Fund's objectives can only be achieved through effective risk management.

#### Overall Risk Management

This is reviewed against the following:

- i) Separate audit fee negotiated with external auditor that reflects use of well-qualified and experienced staff supported by pensions partners and actuarial expertise;
- ii) Structured delegation of powers and reporting of activity;
- iii) Regular internal audit of the Fund's activities with two major audits each year covering investments and administration;
- iv) Council-wide risk management approach involving members and senior officers.
- v) Extensive internal compliance procedures which are regularly tested against written procedures and practices.

#### Benefits and Payroll Risk Management

Specific analysis of administration risk is taken against:

- i) Regular yearly external audit testing of benefit calculation by external auditor;
- i) Regular internal audit;
- i) Separation of key activities, eg. bank accounts, accounting;
- i) Regular benefit statements, pensioner existence checking, etc.

### Investment Risk Management

Investment management risk is managed through a range of methods and is primarily split across three key areas;

- i) **Investment strategy and asset allocation**
  - a) annual asset allocation reviewing analysing investment risk and return
  - b) Ensuring that the portfolio is suitably diversified
  - c) Quarterly performance measurement, monitoring and reporting of asset allocation to benchmark
- ii) **Manager risks**
  - a) detailed manager selection and due diligence
  - b) manager performance monitoring
  - c) reporting of transactions and changes in management arrangements to Investment Advisory Sub-Committee
- iii) **Operational risks**
  - a) separation of accounting responsibilities
  - b) separation of duties within investments
  - c) comprehensive internal compliance monitoring programme based upon best practice and annually reviewed

### 4) Strategic Director's Annual Governance Statement

The Strategic Director has made the following statement in support of governance arrangements of the Fund.

With regard to the West Midlands Pension Fund, day-to-day management of the Fund is carried out by four separate teams of staff who are dedicated solely to the functions of pension administration, finance, governance and investments, with appropriate support and advice from external investment managers. All teams report to the Strategic Director of Pensions. The key elements of the Fund's internal control environment include:

- procedures for establishing and monitoring the achievement of the Fund objectives;
- the facilitation of policy making and decision making;
- ensuring compliance with established policies, procedures, laws and regulations;
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Fund are exercised;
- the financial management of the Fund and the reporting of financial management;
- the performance management of the Fund and the reporting of performance management.

# Key Risks

The key risks identified by the Fund through its risk management procedures are as follows:

## Administration

- **The Pension Administration Strategy (PAS) is not complied with by employers**

The risk is that employers are not aware of their responsibilities under the PAS. In order to mitigate these risks, the Fund communicates with employers to ensure they understand the PAS and the requirements within. Each employer is asked to sign an undertaking of their understanding and acceptance.

- **Lack of employer covenant strength and/or suitable guarantors**

All new employers are required to have a suitable guarantee in place prior to being admitted into the scheme. Monitoring is carried out on existing employers and the covenant strength is assessed and each employer risk rated. Higher-risk employers are monitored closely.

## Governance

- **The Fund breaches information governance and data protection law/regulations**

The Fund is due to be registered as a Data Controller from 1 April. Breaches could lead to reputational damage and possible enforcement action from regulators, such as penalty notices.

The Fund provides staff training and all breaches are reported and any systemic issues are identified and corrected.

- **The Fund cannot continue to operate and deliver its priority services following a disaster or data loss scenario**

No experience of service failure; however, the Fund's business continuity plan is largely dependent on the IT infrastructure of the City of Wolverhampton Council. To mitigate any risk, the Fund is currently in discussion with the City of Wolverhampton Council to ensure it is adequately covered within the Council's own recovery plan.

## Investments

- **The Fund invests in an inappropriate asset allocation**

The risk that trustees and officers do not receive appropriate advice or do not have suitable skills to make decisions is mitigated by the Fund providing training and formal qualifications for trustees and officers. Annual reviews are also undertaken by the Fund's investment advisor and investments are diversified by asset classes to spread risk.

- **Poor performance of investment managers**

Due diligence is carried out on all managers prior to agreeing to invest. Any investment is approved by the Strategic Director of Pensions and Assistant Director – Investments. Manager performance is reviewed at monthly investment meetings and annually by the Fund's Investment Advisor.

# Investment Management

The approach to investment of the Fund's assets is built around the policies and practices set out in the Statement of Investment Principles (SIP), Funding Strategy Statement (FSS), Statement of Investment Beliefs and Socially Responsible Investment (SRI) Statement which can be found at the Fund's website, [wmpfonline.com](http://wmpfonline.com).

This approach in summary is as follows:

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

Investment strategy is undertaken annually; it pays due consideration to the Fund's structure and investment objectives. The investment strategy has been revised a number of times in recent years to reflect major economic and market changes in the world following the 2008 banking crisis and 'credit crunch'.

The majority of the Fund's expected returns come from the markets in which it invests with the balance from added value delivered by investment managers. The emphasis of the investment strategy is also to ensure an appropriate level of portfolio diversification for the Fund.

Best practice has regard to the following:

- i) Myners' principles;
- ii) Financial Conduct Authority (FCA) requirements;
- iii) Professional and industry standards;
- iv) CIPFA, the Audit Commission and other professional bodies' views, codes and recommendations;
- v) Investment management regulation;
- vi) Accounting standards;
- vii) LGPS regulations;
- viii) Pensions legislation.

The Fund has a clearly defined governance structure with the Pensions Committee and Investment Advisory Sub-Committee supported by the in-house investment division and a range of external advisers.



# Communications and Customer Care

The Fund recognises that it has a large and diverse customer base split across those customers with a direct interest (employers and scheme members) and those who have an interest because of the nature of the Fund's activities (trade unions and the pensions industry, for example). The Fund has developed an approach to ensure it is able to meet the needs of its direct and indirect customers.

The Fund aims to:

- deal with customers promptly and fairly, with due regard for cost while still providing a comparable level of service with similarly sized pension funds;
- consult customers wherever possible when considering changes to the service we provide and to take account of their views; and
- report on the quality of the service we provide and seek feedback from customers on a continual basis.

The Fund recognises the following groups as stakeholders of the Fund:

- Pensions Committee
- Pensions Board
- Investment Advisory Sub-Committee
- Scheme members
- Representatives of scheme members
- Prospective scheme members
- Scheme employers
- Fund staff
- Other bodies

A customer journey mapping programme is in place to enable the Fund to effectively manage the expectation, experience and satisfaction levels of its customers with due regard to cost, efficiency and ease of completion. The programme allows the Fund to identify service improvements, to enhance customer experience, at the same time as delivering the business needs and our long-term partner.

The objectives in communicating with stakeholders are:

- to keep everyone informed about the management and administration of the Fund;
- to provide relevant information which enables stakeholders to make decisions regarding pension provision;
- to consult employers on changes to legislative regulations, policies and procedures that affect the Fund; and
- to promote the LGPS as an important benefit of recruitment and retention.

The Fund aims to meet all special communications requirements by ensuring that communications are available in large print, braille, audio format and where English is not the individual's first language, an alternative will be offered. The Fund aims to achieve clarity of message, using plain English, to deliver consistent communication through different media channels.

The Fund will deliver prepared communications in a timely manner which support our partnership arrangements with employers, members and third-parties (eg, Club Together and Prudential). It is vital that information is accurate, factual and relevant so that stakeholders and customers are fully engaged with current matters and future changes to the LGPS.

Any communication will be targeted at appropriate groups, eg, Club Together to pensioner members, with regards to verbal and visual style, content, communication medium and the method of delivery.

The Fund aims to encourage feedback and comment regarding different communications channels in order to identify improvements and changes. Any feedback will have due regard to cost/value for money, with the Fund's preferred solution for web-powered feedback being SurveyMonkey.com's secure online surveys.

# Medium-Term Financial Plan 2015 - 2020

## 1) The purpose of the medium-term financial plan

This plan expresses the Fund's service plan in financial terms, and is therefore an integral part of the plan.

## 2) Background

The Local Government Pension Scheme regulations provide for the costs relating to general administration and investment functions to be an allowable charge to the Fund: the costs are not a direct charge on employing bodies. The Fund's actuary makes provision in his triennial valuation process for administration and investment expenses.

The Fund continues to demonstrate good value for money in its operating costs. The Department for Communities and Local Government collect information from all LGPS funds on their administration and fund management costs on a yearly basis. The table below details the Fund's position for 2013/14 as compared to other LGPS bodies:

	2013/14 administration costs £ (psm*)	2013/14 Fund management costs £ (psm*)
West Midlands Pension Fund	19.21	39.91
Average for LGPS:		
- Metropolitan funds	22.38	47.74
- All English authorities	34.52	123.94

\*per scheme member

The Fund's operating costs remain below the average for LGPS operating costs. However, the Fund continues to seek to drive improvements in efficiencies and to reduce the average costs, while maintaining a quality service.

## 3) Medium-term workload

The Fund has addressed a number of significant developments in recent years:

- a) The detailed actuarial valuation exercise 2013 which informs the Fund's financial position and contribution arrangements for the medium-term period through to 2016/17.
  - b) The review of the Fund's investment strategy to strengthen the overall funding position through the generation of additional returns from investment allocation.
  - c) The introduction of academy schools has resulted in a significant increase in the number of participating employers in the Fund.
  - d) The introduction of the new LGPS 2014 from 1 April 2014. This saw the scheme move to a career average-related earnings basis, while maintaining the key feature of it being a defined benefit scheme.
  - e) Auto-enrolment commenced in 2012 with some employers postponing their staging dates.
  - f) Developing a new accounting system for 1 April 2014.
- 4) In reviewing the developments in the medium term from 2015/16 onwards, a number of service developments are anticipated:
- a) An ongoing assessment of the effectiveness of the IT arrangements for the pensions administration system, to ensure that it provides a reliable platform for complying with LGPS 2014 requirements. Also, the transfer to a new platform for the Fund's website and the transition to electronic bulk data input.
  - b) The challenge of responding to the new regulatory environment including the maintenance of accurate membership records and data quality standards to meet the requirements of The Pensions Regulator and HMRC (GMP reconciliation).
  - c) Continuing monitoring, review and implementation of the investment strategy including the future introduction of multiple investment strategies.
  - d) The need for effective management of future costs of administration and investment management expenses to ensure that the service continues to function at a high level, while operating within a tighter financial framework.
  - e) Responding to the challenges faced by employers as a result of the requirements of the actuarial valuation 2013 and their continuing financial pressures.
  - f) The challenges faced from the increased pensioner numbers (see table overleaf) resulting from headcount reduction at participating employers.
  - g) Developing a model to internally monitor funding levels between actuarial valuations.
- Provision of £350,000 per year has been made in the medium-term financial plan to enable the Fund to respond to these developments. This amount will be reviewed annually as part of the service planning process.

Year ended	Active	Deferred	Preserved refunds	Pensioners	Beneficiary	Totals
31 March 2010	104,612	69,605	8,181	56,433	10,438	249,269
31 March 2011	102,608	72,775	8,131	59,322	10,666	253,502
31 March 2012	95,478	76,422	8,045	64,280	10,948	255,173
31 March 2013	97,330	78,679	7,830	66,491	11,024	261,324
31 March 2014	99,771	82,287	7,721	69,170	11,381	270,330
31 December 2014	104,165	82,382	7,607	70,101	11,283	275,538

### 5) Detailed operating budgets

The operating service estimates for pensions administration and investment charged to the Fund for 2015/16 through to 2019/20 are detailed below.

	2014/15 budget	2015/16 budget	2016/17 forecast	2017/18 forecast	2018/19 forecast	2019/20 forecast
Employees	4,513	4,797	5,067	5,196	5,314	5,420
Premises	344	328	325	331	337	343
Transport	69	60	61	62	63	64
Other	1,967	1,923	2,211	2,000	2,039	2,339
Investment management and advice	11,133	9,559	10,133	10,741	11,385	12,068
Service development	350	350	350	350	350	350
Communications and computing	719	702	716	730	744	758
Support services	523	454	463	472	481	490
Miscellaneous income	(150)	(155)	(155)	(155)	(155)	(155)
<b>Net budget</b>	<b>19,468</b>	<b>18,018</b>	<b>19,171</b>	<b>19,727</b>	<b>20,558</b>	<b>21,677</b>

### 6) Cost per scheme member

The forecast costs per scheme member, for administration and investment management, are as follows:

	2014/15 budget	2015/16 budget	2016/17 forecast	2017/18 forecast	2018/19 forecast	2019/20 forecast
Total administration costs (£000)	5,031	5,393	5,866	5,744	5,864	6,121
Administration cost per member (£)	18.15	19.11	20.33	19.49	19.48	19.90
Total investment management costs (£000)	14,437	12,625	13,305	13,983	14,694	15,556
Investment management cost per member (£)	52.07	44.73	46.12	47.44	48.82	50.56

**7) Medium-term financial plan**

The following table provides forecasts for the whole Fund over the period covered by the service plan.

	2014/15 forecast £m	2015/16 forecast £m	2016/17 forecast £m	2017/18 forecast £m	2018/19 forecast £m	2019/20 forecast £m
Contributions receivable	(450.3)	(447.1)	(467.0)	(477.2)	(485.8)	(494.5)
Other income	(16.6)	(16.8)	(17.1)	(17.4)	(17.7)	(18.1)
Benefits payable	496.6	520.0	548.1	577.1	607.1	638.1
Other payments	0.3	0.3	0.3	0.3	0.3	0.3
<b>Net cost of pensions</b>	<b>30.0</b>	<b>56.4</b>	<b>64.3</b>	<b>82.8</b>	<b>103.9</b>	<b>125.8</b>
Investment income	(141.2)	(148.9)	(156.6)	(164.6)	(172.8)	(181.1)
Gains in value of investments	(464.0)	(489.4)	(514.5)	(540.9)	(567.7)	(595.0)
<b>Net return on investments</b>	<b>(605.2)</b>	<b>(638.3)</b>	<b>(671.1)</b>	<b>(705.5)</b>	<b>(740.5)</b>	<b>(776.1)</b>
Management expenses (operating budget)	19.4	18.0	19.2	19.7	20.6	21.7
<b>Net increase in the Fund</b>	<b>(555.8)</b>	<b>(563.9)</b>	<b>(587.6)</b>	<b>(603.0)</b>	<b>(616.0)</b>	<b>(628.6)</b>
Opening Fund balance	10,144.4	10,700.2	11,264.1	11,851.7	12,454.7	13,070.7
<b>Closing Fund balance</b>	<b>10,700.2</b>	<b>11,264.1</b>	<b>11,851.7</b>	<b>12,454.7</b>	<b>13,070.7</b>	<b>13,699.3</b>

**Notes**

- 1) The Fund continues to review its operational arrangements. The aim is to process an increasing workload while managing the cost base to ensure that effective and economical arrangements are in place.
- 2) The cost of investment management and advice will vary with the performance of managers, as a number of arrangements have an element of a performance management fee.

**West Midlands Pension Fund**

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# Pensions Committee

18 March 2015

<b>Report title</b>	Compliance Monitoring 1 October – 31 December 2014	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Jennifer Dugmore Tel Email	Compliance and Risk Officer 01902 552092 <a href="mailto:Jennifer.dugmore@wolverhampton.gov.uk">Jennifer.dugmore@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 <a href="mailto:Geik.drever@wolverhampton.gov.uk">Geik.drever@wolverhampton.gov.uk</a>

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## 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 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 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 July - 30 September 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. Any recommendations from findings are signed off by the head of department.

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 will be reviewing the current programme commencing April 2015. 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 will be sent to Pensions Committee for approval in June 2015.

#### **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 Managing Director 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 For this period a total of 2 hours was spent by employees responding to the requests.

5.4 The Fund is currently undertaking the setup of becoming its own Data Controller under the Information Commissioner. From 1 April 2015 the Fund will be solely responsible for the maintenance, recording and submitting of data in relation to Freedom of Information requests, breaches and Data Protection requests to the Information Commissioner.

#### **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

## 18 March 2015

<b>Report Title</b>	Pension Services – Risk Register review	
<b>Originating service</b>	Pension Services	
<b>Accountable officer(s)</b>	Emma Bland Tel Email	Compliance and Risk Manager 01902 554387 <a href="mailto:emma.bland@wolverhampton.gov.uk">emma.bland@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Rachel Howe Tel Email	Head of Governance 01902 552091 <a href="mailto:rachel.howe@wolverhampton.gov.uk">rachel.howe@wolverhampton.gov.uk</a>

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### Recommendation(s) for noting:

The Committee is asked to note:

1. The top ten risks for West Midlands Pension Fund.
2. That the full revised risk register will be presented to the June 2015 Committee.

## **1.0 Purpose**

- 1.1 As a matter of best practice, it has been agreed that the Fund's risk register will be approved by the Pensions Committee and reviewed on an annual basis.

## **2.0 Background**

- 2.1 There is in operation a risk register for the Fund, which aims to ensure that the risks to the Fund's ability to achieve its objectives are identified and managed. The objectives of the Fund as set out in the Business Plan 2014-2019 are;

- To become a top performing fund;
- To achieve target investment returns;
- To improve our funding level;
- To provide excellent customer service.

- 2.2 The approved risk register is reviewed and monitored at least quarterly by the Fund's Senior Management Team and presented to Committee annually for review and approval. Further, the approved register forms the basis of the Compliance Monitoring programme with resource being focussed on managing the key risks to the Fund's objectives.
- 2.3 Members of staff having direct and indirect operational involvement with Investments and Member Services are involved in the identification and analysis of risks which make up the risk register.

## **3.0 Risk Register**

- 3.1 There are currently 41 individual risks which have been identified and recorded on the register using a 5 x 5 scoring matrix to decide how likely they are to occur and how much of an impact they would have. Although none of the identified risks have a critical rating, there are seven risks with an impact/probability score of ten or above, shown in Appendix 1.
- 3.2 As shown, the risk register clearly identifies the mitigation strategies implemented by the Fund in order to reduce the probability of a risk occurring, or to minimise the impact it would have should it materialise. Individual risk owners have also been identified and are responsible for managing the risks and for ensuring that the mitigating actions are implemented and are operating effectively.
- 3.3 The Fund has decided to fully review the risk register to ensure that it is comprehensive enough that all risks which require monitoring are reviewed effectively – is fit for purpose - but is not overly bureaucratic and cumbersome. The revised risk register will be presented to the June Committee.

3.4 Following approval of the risk register, the existing compliance monitoring programme will be revised to reflect the risk based approach, linking the programme to the Fund's objectives and the approved risk register.

#### **4.0 Financial implications**

4.1 This report contains no direct financial implications for the Authority.

#### **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 Authority's equalities policies.

#### **7.0 Environmental implications**

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

#### **8.0 Human resource implications**

8.1 This report has no implications for the Authority's human resource policies.

#### **9.0 Corporate landlord implications**

9.1 The report contains no direct corporate landlord implications for the Authority.

#### **10.0 Schedule of background papers**

10.1 There were no preceding background papers.

#### **11.0 Schedule of Appendices**

11.1 Appendix 1 – West Midlands Pension Fund Top Ten Risks 2015

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West Midlands Pension Fund Top Ten Risks 2015

West Midlands Pension Fund Top Ten Risks 2015																																																			
Risk Identification						Qualitative Risk Assessment				Risk Response Plan		Monitoring and Control																																							
No.	Status	Risk Category	Risk Event	Cause	Effect	Threat or Opportunity	Primary Objective	Probability	Impact	Risk Matrix	Response Strategy	Response Actions	Risk Owner	Interval or Milestone Check	Compliance Monitoring																																				
1	Active	Administration	The Pension Administration Strategy (PAS) is not complied with by employers.	The PAS is not enforced. Employers are unaware of their responsibilities under the PAS.	Customer detriment, reduced cash flow. Inability to exert authority.	Threat	To provide excellent customer service	4	4	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td></td><td>X</td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H				X		M						L						VL							VL	L	M	H	VH	Treat	Communication with employers to ensure they understand the PAS and their requirements under it. Each employer will be asked to sign an undertaking of their understanding and acceptance of the PAS. PAS regularly reviewed. Monthly monitoring of contribution payments by Finance.	Head of Pensions Administration	Half yearly	Ensure PAS is reviewed annually and approved. Ensure PAS is communicated to all relevant stakeholders. Determine if adherence to the PAS is being monitored and necessary actions taken. Ensure all contributions paid on time, in accordance with Schedule of Contributions.
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2	Active	Governance	The Fund breaches Information Governance and Data Protection law/regulations.	Insufficient training and security arrangements in place for Fund information.	Reputational damage, possible enforcement action from regulators.	Threat	To become a top performing Fund	4	4	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td></td><td>X</td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H				X		M						L						VL							VL	L	M	H	VH	Treat	Staff training on Information Governance and Data Protection. All information security and data protection breaches are reported and any systemic issues are identified and corrected.	Head of Governance	Quarterly	Determine if all new members of staff have completed the e-learning module and attended mandatory training. Data breach reporting and monitoring.
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	VL	L	M	H	VH																																														
3	Active	Administration	Pension benefits are calculated with inaccurate or incomplete data.	Member records have not been accurately maintained or are missing key data. Data provided from external sources is inaccurate.	Overpayment of pensions. Reputational damage. Censure from regulators.	Threat	To provide excellent customer service	4	3	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td>X</td><td></td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H			X			M						L						VL							VL	L	M	H	VH	Treat	Robust process in place to ensure accuracy of calculations. Induction training to ensure officers are suitably skilled, as well as regular staff training to raise awareness of the importance of data quality. Data quality reviews of common and conditional data in place. Pension Administration Strategy sets out expectations and requirements of employers in relation to data quality.	Head of Pensions Administration	Quarterly	Testing of processes to ensure accuracy of data used in calculations. Review induction to ensure new staff are fully trained prior to being allowed to calculate pension benefits. Monitor data quality reviews ensuring conditional and common data standards are being adhered to. Ensure all employers have signed up to the PAS
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	VL	L	M	H	VH																																														
4	Active	Administration	Liabilities need to be orphaned across the Funds remaining employers in the event of an employer failing.	Employer covenant is not strong enough and/or no suitable guarantor is in place.	Increase in liabilities for existing employers.	Threat	To improve our funding level	3	4	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td>X</td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H						M				X		L						VL							VL	L	M	H	VH	Treat	All new employer bodies need to have a suitable guarantee in place prior to being admitted into the scheme. Monitoring is carried out on existing employers and the covenant strength is assessed and each employer is risk rated. Higher risk employers are monitored closely by the Employer Team.	Head of Pensions Administration	Quarterly	Sample check new employers and ensure suitable guarantee is in place. Review monitoring process to ensure it is being completed regularly and that reasonable conclusions are being made and necessary actions taken.
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H																																																			
M				X																																															
L																																																			
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	VL	L	M	H	VH																																														
5	Active	Governance	Elected Members do not maintain appropriate levels of independence from their Authorities.	Members are not fully aware of their duties as trustees. Undue pressure from employing authority to obtain beneficial outcomes.	Undue influence from employers represented on Committee could detriment other scheme employers. Reputational Damage.	Threat	To become a top performing Fund	3	4	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td>X</td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H						M				X		L						VL							VL	L	M	H	VH	Treat	Full trustee induction training is provided to members on joining the Pension Committee to inform them of their duties and responsibilities. There are sufficient numbers on the Committee to ensure that the Funds interests are put before individual authorities. Members bound by Localism Act and their own codes of conduct. All trustees declare any conflicts and potential conflicts at Committee meetings.	Strategic Director of Pensions	Quarterly	Check all trustees/members have had an induction. Review balance of members representation on Committee (Declaration of Trust). Monitor conflicts minuted at each Committee meeting.
VH																																																			
H																																																			
M				X																																															
L																																																			
VL																																																			
	VL	L	M	H	VH																																														
6	Active	Investment	The Fund invests in an inappropriate asset allocation.	Trustees and officers do not receive appropriate investment advice and/or are not suitably skilled to make the decisions they are tasked with.	The Fund investment strategy does not deliver growth in line with expectations which has an adverse impact on the funding level. Increase in funding deficit.	Threat	To achieve target investment returns	3	4	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td>X</td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H						M				X		L						VL							VL	L	M	H	VH	Treat	Trustee training programme, including presentations before, during and after Committees. Annual reviews by external investment advisors. Support and guidance from experienced staff. Diversification of asset classes. Asset allocation is reviewed alongside that of peers to identify too much deviation from the 'norm'. Structure in place for the setting and approval of the asset allocation.	Assistant Director - Investments	Quarterly	Ensure regular recording of training hours takes place. Random sample of training logs. Review of training quality to determine if it adds value. Ensure necessary action is taken where skills gaps are identified or none achievement of hours is evident. Review Committee papers for an audit trail of decisions made.
VH																																																			
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	VL	L	M	H	VH																																														
7	Active	Administration	Payment of pensions increase is not made	Civica do not deliver the specification to be uploaded to the Pensions Administration system.	Customer detriment and reputational damage.	Threat	To provide excellent customer service	2	5	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td></td><td>X</td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H						M						L					X	VL							VL	L	M	H	VH	Treat	Ensure testing of Civica software and that contingencies are put in place to cover the pensions payroll.	Head of Pensions Administration	Annual	Ensure testing of Civica software is carried out and that contingencies are in place to cover the payroll.
VH																																																			
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8	Active	Investment	The Fund invests with unsuitable managers	Inadequate due diligence carried out on prospective opportunities.	Financial loss and reputational damage.	Threat	To achieve target investment returns	2	4	<table border="1"> <tr><td>VH</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>H</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>M</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>L</td><td></td><td></td><td></td><td>X</td><td></td></tr> <tr><td>VL</td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> </table>	VH						H						M						L				X		VL							VL	L	M	H	VH	Treat	Due diligence is carried out on all investment managers prior to agreeing to invest. Any investment is approved by the Assistant Director - Investments and the Director of Pensions. Manager performance is monitored at monthly Investment meetings.	Assistant Director - Investments	Quarterly	Review any new Fund managers from the period and ensure suitable due diligence has been conducted and that relevant approval and notification has been given to trustees. Ensure managers with significant holdings and/or causing concern are contacted on a regular basis, e.g. meeting, telephone call, letter.
VH																																																			
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Risk Identification					Qualitative Risk Assessment					Risk Response Plan		Monitoring and Control																																													
9	Active	Governance	The Fund cannot continue to operate and deliver its priority services following a disaster or data loss scenario.	Inability of WCC to be able to recover data or to provide the Fund with adequate systems following a disaster recovery incident.	The Fund cannot continue to operate and deliver its priority services.	Threat	To provide excellent customer service	2	4	<table border="1"> <tr><td>VH</td><td>Green</td><td>Yellow</td><td>Red</td><td>Red</td><td>Red</td></tr> <tr><td>H</td><td>Green</td><td>Yellow</td><td>Yellow</td><td>Red</td><td>Red</td></tr> <tr><td>M</td><td>Green</td><td>Green</td><td>Yellow</td><td>Yellow</td><td>Red</td></tr> <tr><td>L</td><td>Green</td><td>Green</td><td>Green</td><td>Yellow</td><td>Yellow</td></tr> <tr><td>VL</td><td>Green</td><td>Green</td><td>Green</td><td>Green</td><td>Green</td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> <tr><td></td><td colspan="5">Impact</td></tr> </table>	VH	Green	Yellow	Red	Red	Red	H	Green	Yellow	Yellow	Red	Red	M	Green	Green	Yellow	Yellow	Red	L	Green	Green	Green	Yellow	Yellow	VL	Green	Green	Green	Green	Green		VL	L	M	H	VH		Impact					Treat	Business continuity plan (BCP) in place for incidents which deny access to Mander House. Regular testing and review of plan. Homeworking arrangements in place for key staff. Currently in discussions with WCC to ensure the Fund is adequately covered in WCC's recovery plan.	Head of Governance	Annual	Regular review of BCP and annual testing undertaken.
VH	Green	Yellow	Red	Red	Red																																																				
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10	Active	Governance	Fund processes are subjected to fraud.	Suitable controls are not in place within Fund processes, systems/processes are not adequately documented.	Financial loss and reputational damage.	Threat	To become a top performing Fund	2	4	<table border="1"> <tr><td>VH</td><td>Green</td><td>Yellow</td><td>Red</td><td>Red</td><td>Red</td></tr> <tr><td>H</td><td>Green</td><td>Yellow</td><td>Yellow</td><td>Red</td><td>Red</td></tr> <tr><td>M</td><td>Green</td><td>Green</td><td>Yellow</td><td>Yellow</td><td>Red</td></tr> <tr><td>L</td><td>Green</td><td>Green</td><td>Green</td><td>Yellow</td><td>Yellow</td></tr> <tr><td>VL</td><td>Green</td><td>Green</td><td>Green</td><td>Green</td><td>Green</td></tr> <tr><td></td><td>VL</td><td>L</td><td>M</td><td>H</td><td>VH</td></tr> <tr><td></td><td colspan="5">Impact</td></tr> </table>	VH	Green	Yellow	Red	Red	Red	H	Green	Yellow	Yellow	Red	Red	M	Green	Green	Yellow	Yellow	Red	L	Green	Green	Green	Yellow	Yellow	VL	Green	Green	Green	Green	Green		VL	L	M	H	VH		Impact					Treat	Pensions systems have in built controls which require segregation of duties. Regular external and internal audit reviews carried out on Fund systems and processes. Annual undertaking for all staff in relation to conduct and behaviour.	Head of Governance	Quarterly	Testing of payments/processes to ensure adequate separation of duties is evident. Especially for manual payments or work done outside of the system.
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# Pensions Committee

18 March 2015

<b>Report title</b>	Information Governance	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Emma Bland Tel Email	Compliance and Risk Manager 01902 554387 <a href="mailto:Emma.bland@wolverhampton.gov.uk">Emma.bland@wolverhampton.gov.uk</a>
<b>Consultees</b>	Adam Hadley Martin Eades	Scrutiny and Transparency Manager Information Governance and Security Officer
<b>The Report has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 <a href="mailto:Geik.drever@wolverhampton.gov.uk">Geik.drever@wolverhampton.gov.uk</a>

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## Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the registration of the Fund as Data Controller, with the Information Commissioner's Office (ICO).
2. Approve the terms of reference for the Information Governance Working Party and associated definitions, roles and responsibilities, as well as the proposed appointments to those roles.
3. Approve the Information Governance Policy.
4. Delegate authority to the Strategic Director of Pensions to implement the required changes.

## 1.0 Purpose

- 1.1 To seek the approval of the Committee to register the Fund as Data Controller with the ICO.
- 1.2 To present to the Committee the terms of reference for the Information Governance Working Party and associated definitions, roles and responsibilities, as well as recommending appointments to roles.
- 1.3 To present to the Committee the proposed Information Governance Policy.

## 2.0 Background

- 2.1 At the 10<sup>th</sup> December 2014 Pensions Committee, a paper was presented asking the Committee to note that under the provisions of the Data Protection Act (DPA), the Fund should register with the ICO, as being responsible for its own handling of data, i.e. a Data Controller.
- 2.2 The DPA states that the Data Controller is a person who (either alone or jointly or in common with other persons) determines the purposes for which and the manner in which any personal data are, or are to be processed.
- 2.3 The Fund falls into this category: it holds information for all members of the pension scheme and currently, holds in excess of 270,000 accounts. Whilst some of that information is also held by Wolverhampton City Council as an employer, the Fund holds other information which is not accessible by the City Council and which is not required for their purposes (as they are not the sole employer of all members of the Fund). For this reason the Fund are considered to be in control of this information, information which is sensitive personal data.

## 3.0 Work undertaken

- 3.1 Discussions were held with the City Council's Scrutiny and Transparency Manager and taking on-board the Council's experience and benchmarking of other board's across the country, it was identified that, in order to carry out its role as Data Controller and meet its obligations, the Fund should have in place:-
  - **An Information Governance Policy**  
An Information Governance Policy provides guidance on information governance. It sets out objectives, scope, regulatory requirements and responsibilities. It also provides a Framework to ensure the Fund meets its obligations for the effective management of information, covering areas such as freedom of information, data protection, records management, information security and quality.
  - **An Information Governance Working Party**  
The Information Governance Working Party provides high level oversight and support to the Senior Information Risk Owner (SIRO) and Data Controller. It determines the

long term information governance strategy, monitors progress against strategy and provides assurance that information risk is being properly assessed, controlled and mitigated.

- **An Information Governance Operational Group**

The Information Governance Operational Group consists of subject matter experts and provides operational support to the organisation and the Information Governance Working Party and is responsible for ensuring that any tasks commissioned by the Working Party are effectively implemented.

3.2 The governance structure is shown in Appendix 1.

#### **4.0 Terms of Reference, Roles, Responsibilities and Appointments**

4.1 Appendix 2 sets out the terms of reference for the Information Governance Working Party and Appendix 3 sets out the related definitions, roles and responsibilities.

#### **5.0 Information Governance Policy**

5.1 The Information Governance Policy, outlined in 3.1, is attached in Appendix 4.

#### **6.0 Next Steps**

6.1 To improve Data Protection and Freedom of Information awareness, Fund Senior Managers and Team Leaders have already received training tailored specifically to the Fund.

6.2 In addition this training was cascaded to all staff at a Staff Briefing in February 2015 and will be included in Trustee induction training in July 2015.

6.3 Should the Committee agree with the recommendations, Officers will:-

- register the Fund as Data Controller with the ICO;
- set up the Information Governance Working Party and Operational Group;
- implement the Information Governance Policy and related policies and procedures.

#### **7.0 Financial implications**

7.1 There is a fee cost to the registration of the Fund as a Data Controller of £35.

7.2 In addition there is a resource implication to the Fund in setting up and adopting these policies and processes which will need to be absorbed by Fund staff as part of their current duties.

7.3 Failure to comply with the requirements could amount to a significant financial penalty from the ICO which will need to be borne by the Fund.

## 8.0 Legal implications

8.1 Registration by Data Controllers is a legal requirement and our failure to meet this requirement would mean we are falling foul of the legislation which would leave us open to challenge.

## 9.0 Equalities implications

9.1 There are no equalities implications.

## 10.0 Environmental implications

10.1 There are no environmental implications.

## 11.0 Human resources implications

11.1 Within information governance there are key roles which have to be fulfilled. These roles are identified within Appendix 2 along with the recommended posts which should fulfil them. These are:

Role	Responsible Post
Data Controller	Strategic Director of Pensions
Senior Information Risk Owner (SIRO)	Head of Governance
Caldicott Guardian (Adults)	Service Director, Older People
Qualified Person	Head of Governance
Public Interest Test	Head of Governance

11.2 Where a post is vacant or the incumbent is unable to act, the person undertaking that role shall be responsible.

## 12.0 Corporate landlord implications

12.1 There are no corporate landlord implications.

## 13.0 Schedule of background papers

13.1 Data Protection Act 1998

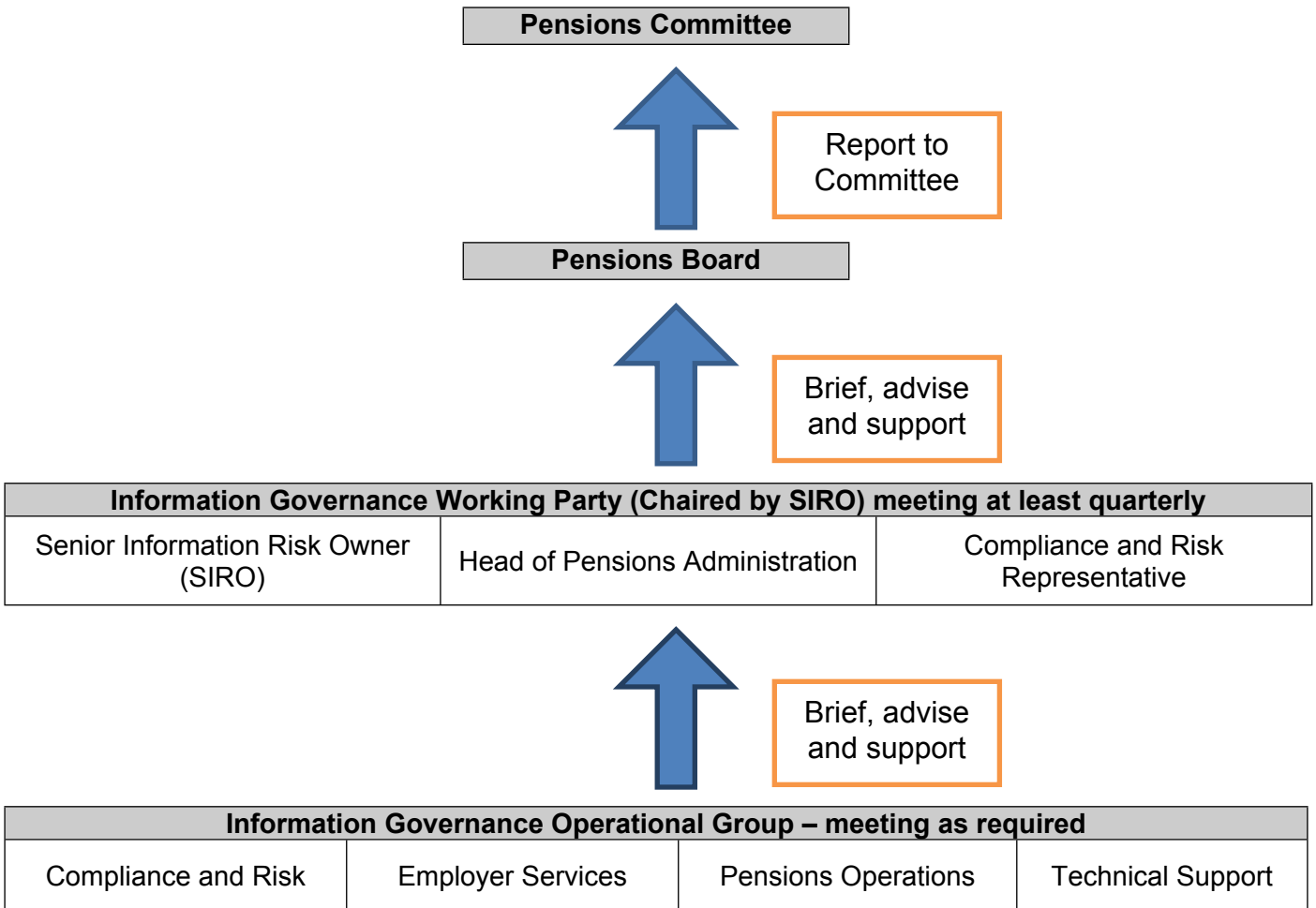
<http://www.legislation.gov.uk/ukpga/1998/29/contents>

13.2 Pensions Committee 10 December 2014 Information Governance report

<https://wolverhamptonintranet.moderngov.co.uk/documents/g4114/Public%20reports%20pack%2010th-Dec-2014%2013.30%20Pensions%20Committee.pdf?T=10>

## 14.0 Schedule of Appendices

- 14.1 Appendix 1  
Information Governance Structure Chart
- 14.2 Appendix 2  
Information Governance Working Party - Terms of Reference
- 14.3 Appendix 3  
Information Governance Board – Definitions, Roles and Responsibilities
- 14.4 Appendix 4  
Information Governance Policy





## Information Governance Working Party

### Terms of Reference

#### 1. Purpose

- 1.1 The purpose of this Working Party is to support and drive the development of effective corporate strategies to ensure the Fund puts in place appropriate information risk management activities and complies with best practice mechanisms, legislative requirements and standards in respect of the confidentiality, integrity, availability and security of information.

#### 2. Objectives of the Working Party

##### **The Working Party will:**

- 2.1 Provide leadership, strategic direction and promote consistent standards for information governance across the Fund, to enable risk, ethical, legal, operational and policy issues to be assessed and appropriately managed;
- 2.2 Act as an escalation point in relation to issues raised by the Information Governance Operational Group;
- 2.3 Discuss, assess and provide advice and guidance to establish the amount and type of risk it is prepared to accept or tolerate in the form of an information risk appetite;
- 2.4 Have oversight of the information risk register, associated risk management action plan and information asset register to ensure all relevant risks are assessed and appropriate control measures and mitigation is put in place against the backdrop of agreed information risk appetites;
- 2.5 Ensure compliance with the Information Governance Framework, including setting levels of progress against the Information Governance Maturity Model and monitoring activities designed to achieve these set levels;
- 2.6 Oversee the information governance work programme;
- 2.7 Receive and review information governance performance statistics, seeking assurances that robust arrangements are in place to clearly communicate and incorporate any lessons learnt into corporate policies, procedures and guidelines;
- 2.8 Report to, and advise, Pensions Committee and councillors on any matters related to information governance that should be brought to their attention and commission the delivery of any tasks as directed by these key stakeholders;
- 2.9 Have an oversight of the work undertaken with outside bodies and partner

organisations, seeking assurances that barriers to information sharing are identified and overcome, innovative collaborative working practices are being developed and that information is being shared effectively, ethically and legally for the mutual benefit of all concerned;

- 2.10 Receive and review information governance incident reports that detail outcomes and trends, seeking assurance that common areas for improvement are incorporated into corporate policies, procedures and guidance to ensure information is suitably protected;
- 2.11 Own the privacy impact assessment process;
- 2.12 To oversee and agree to the development of new information governance policies and procedures and to support their implementation and to review and monitor existing information governance policies to maintain currency with changes in legislation;
- 2.13 To agree and own a necessary training programme for staff on information governance and ensure its availability to staff.
- 2.14 To be a member of the current 3-tier Wolverhampton Information Sharing framework.

### **3 Accountability**

- 3.1 The Working Party reports to Pensions Committee and Councillors (this will predominantly be through the Pension Board).
- 3.2 The SIRO reports to the Strategic Director of Pensions in the form of an annual report.

### **4 Working Party Membership**

- 4.1 The Working Party will be chaired by the SIRO and consist of the:
  - Head of Pensions Administration;
  - Compliance and Risk Team representative

Please refer to the proposed information governance structure chart in Appendix 1 and supporting Information Governance Working Party roles and responsibilities guidance document (Appendix 3).

### **5 Meetings and Reporting**

- 5.1 The Working Party will meet at least quarterly. Minutes of each meeting will be produced and circulated within two weeks of the meeting.

### **6 Approval and Review**

- 6.1 These terms of reference will be reviewed annually and any changes agreed with the SIRO and the Working Party.

## Information Governance Working Party

### Definitions, roles and responsibilities

#### 1. Information Governance Working Party

The Working Party provides high level oversight and support to the SIRO and Data Controller. It determines the long term information governance strategy, monitors progress against strategy and provides assurance that information risk is being properly assessed, controlled and mitigated as detailed in Appendix 2, section 2, Objectives of the Working Party.

The Working Party will be chaired by the SIRO and consist of the Head of Pensions Administration and a Compliance and Risk Team representative; all of whom will be permanent members of staff and suitably trained.

The Working Party will be supported by the Information Governance Operational Group.

#### 2. SIRO

The SIRO will chair the Information Governance Working Party and will be supported by the Fund's Compliance and Risk Team; more specifically they will:

- Take overall ownership of the Fund's Information Governance Framework acting as champion for information governance;
- Provide advice and reports to the Strategic Director of Pensions in respect of information incidents and risks, including the content of the Fund's Annual Governance Statement in regard to information risk;
- Provide an annual report to the Strategic Director of Pensions on their work;
- Understand how the strategic goals of the Fund may be impacted by information governance risks, and how these risks may be managed including the adequacy of levels of independent scrutiny;
- Provide a focus for the management of information governance at Working Party level; and
- Owns the management of information governance and risk assessment processes within the Fund including the provision of advice on the effectiveness of information risk management across the Fund.

It is recommended that the Head of Governance is appointed to this role.

### 3. **Compliance and Risk Team**

The Compliance and Risk Team will be required to adopt a strategic role for information governance and will be the champion for information governance. The Compliance and Risk Team will report on information governance matters to the Working Party and promote and develop a culture that values, protects and uses information to deliver improved services; more specifically:

- Compliance with the Fund's Information Governance Framework – promote and ensure awareness of applicable information governance policies and working practices and procedures for the effective use and protection of information assets;
- Information Management – be an advocate for and provide a focus for the management of information;
- Information Asset Information – support and promote the completion and maintenance of the Fund's Information Asset Register. This will include providing oversight of the identification of information risks as part of this process;
- Information Risk – support and promote the information risk assessment process providing assurance on security and use of information. This includes oversight of assessment, protection, response and recovery actions;
- Information Incidents – provide support and assistance to ensure compliance with the Fund's Information Incident Policy and the implementation of agreed actions in response to incidents affecting information assets;
- Information Governance Culture – foster an effective information governance culture for employees and other relevant parties who access and use the Fund's information assets to ensure individual responsibilities are understood, and that good working practices are adopted in accordance with the Fund's information governance policies. A culture that values, protects and uses information to deliver improved services.

### 4. **Information Governance Operational Group**

The Information Governance Operational Group should consist of subject matter experts and provides operational support to the organisation and the Working Party and is responsible for ensuring that any tasks commissioned by the Working Party are effectively implemented.

The Group will be chaired by a Compliance and Risk Team representative and be composed of employees from the following service areas:

- Employer Services
- Pensions Operations
- Systems/Technical Team

The Group will meet as often as is required and will provide an assurance that information assets are being properly identified, recorded, risk assessed and managed in accordance with corporate policies and procedures. The Group will also be responsible for ensuring that work commissioned by the Information Governance Working Party is implemented effectively and be a collaborative platform to help develop the information governance culture.

#### **5. Chair of Information Governance Operational Group**

The Chair of the Information Governance Operational Group is the lead support officer of the Working Party providing the primary link between the Operational Group and the Working Party; therefore it is recommended that a Compliance and Risk Team representative undertakes this role.

#### **6. Caldicott Guardians**

The Caldicott Guardians work as part of a broader information governance function within the Council and to act as a conscience in matters of information confidentiality and sharing for social care and health information; more specifically:

- To act as champions for data confidentiality at Directorate Management level and as part of the Council's Information Governance Board;
- To provide confidentiality and data protection expertise and to develop a knowledge of confidentiality and data protection matters including links with external sources of advice and guidance;
- To ensure that confidentiality issues are appropriately reflected in Council strategies, policies and working procedures for employees;
- To oversee all arrangements, protocols, procedures and adherence to the Caldicott Principles where confidential social care information may be shared with external bodies including disclosures to other public sector agencies and other outside interests.

The Caldicott Guardian for Adults is the Service Director for Older People.

## **Information Governance Policy**

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## 1 Introduction

Information is a vital asset, both for the provision of services and for the efficient management of services and resources. Without it, informed, substantiated decisions cannot be made. It is of paramount importance that information is efficiently managed and that appropriate standards, policies and procedures provide a robust governance framework for information management.

## 2 Purpose

The purpose of this document is to outline an information governance framework that ensures West Midlands Pension Fund:-

- Meets its legal obligations for the effective management of information;
- Recognises the key enabling role of information in supporting the achievement of Fund objectives;
- Ensures that information is treated as a valuable asset.

## 3 Objectives

West Midlands Pension Fund will define an Information Governance Management Strategy. This will set out the strategy for the implementation of the Information Governance Framework outlined in this policy to ensure that the Fund:-

- Holds information securely and confidentially
- Obtains information fairly and efficiently
- Records information accurately and reliably
- Uses information effectively and ethically
- Shares information appropriately and lawfully

The Framework will also seek to ensure that information is available to support service improvement, transparency and openness, accountability, and open data initiatives.

## 4 Scope

The scope of this policy will apply to:-

- All information held and used by West Midlands Pension Fund
- All information systems operated or managed by West Midlands Pension Fund
- Any individual using information held by West Midlands Pension Fund
- Any individual requiring access to information held by West Midlands Pension Fund

This policy should be read in conjunction with the:-

- Data Protection Policy;
- Records Management Policy;
- Information Security Policy;
- Freedom of Information Policy.

## **5 Legal, Regulatory and Standards**

There are a number of legal obligations placed upon the Fund for the use and security of information held by the organisation as well as a number of standards and best practice guides. The term Information Governance encompasses the following areas:

- Data Protection Act 1998, Privacy and Confidentiality Law and Information Sharing Best Practice
- Freedom of Information Act 2000
- Records Management Best Practice and Standards and Copyright Law
- Information Security and Information Risk Standards
- Information Quality Assurance Best Practice

## **6 Responsibilities**

The Information Governance Working Party is responsible for the implementation of this policy and the information governance framework outlined within it. Specific responsibilities are allocated in the core information governance policies.

## **7 The Information Governance Framework**

The framework includes the Information Governance areas already referred to above, i.e.: -

- Freedom of Information and Openness
- Data Protection and Confidentiality
- Records Management (including copyright law)
- Information Security and Risk Management
- Information Quality

For each area the following processes are required to be in place to complete the information governance framework.

### **7.1 Management Arrangements**

For each information governance area within the framework there will be a top level policy setting out the Fund's rules, requirements and responsibilities in order to meet legislative and best practice standards. These policies will be supported by more specific policies and procedures where these are required.

The Information Governance Working Party will be responsible for the Information Governance Strategy, agreeing policies, agreeing implementation methods and improvement plans. It will also be responsible for ensuring that the processes listed below are put in place.

### **7.2 Training and Awareness**

Each information governance area will have a planned approach to training and awareness for all policies and procedures that are agreed and implemented within the

framework. These should be role based, regularly assessed and equip each trainee with the knowledge and skills to fulfil their responsibilities.

### **7.3 Documented Procedures**

There will be documented procedures to support agreed policies. These will specify any operational instructions required to ensure compliance with legislation and standards.

### **7.4 New and Changed Systems**

There will be mechanisms to ensure that information governance issues are considered for all new and changed information system or deployment of ICT. The issues arising will be documented and assessed using information risk management methods where information assurance is identified as an issue.

### **7.5 Process Implementation - Monitoring and Compliance**

There will be a timely and effective monitoring, reporting and compliance regime to support the assessment of process effectiveness.

## **8. Review**

This policy will be reviewed annually or when required by any changes in legislation, regulations or business practice.

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# Pensions Committee

18 March 2015

<b>Report title</b>	Trustee and Pension Board Member Training	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	<a href="mailto:Rachel.howe@wolverhampton.gov.uk">Rachel.howe@wolverhampton.gov.uk</a>
<b>Report has been considered by</b>	Geik Drever	Strategic Director of Pensions
	Tel	01902 552020
	Email	<a href="mailto:Geik.drever@wolverhampton.gov.uk">Geik.drever@wolverhampton.gov.uk</a>

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## Recommendation for action or decision:

The Committee is recommended to:

1. Approve the Trustee and Pension Board Member training matrix for the year 2015/16.

## Recommendation for noting:

The Committee asked to note:

1. The training timetable and dates for structured training throughout 2015/16.

## 1.0 Purpose

- 1.1 To provide Committee with information regarding Trustee's and Pension Board members' duties to undertake training and development.
- 1.2 To provide proposals for how the Fund will deliver training.

## 2.0 Background

- 2.1 The West Midlands Pension Fund ("The Fund") aims to achieve good standards of governance in line with or exceeding best practice built around four key elements:
  - Pensions Committee and Investment Advisory Sub Committee
  - Pension Board
  - Trade union representation and provision of information
  - Advisors and officers
- 2.2 A major factor in the governance arrangements of the Fund is to ensure that Members of its committees, the Pension Board and officers have the relevant skills and knowledge required to take decisions on behalf of members by applying the CIPFA Knowledge and Skills Framework.
- 2.3 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
- 2.4 It is not the intention that Members of these groups should individually become technical experts, but that 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.
- 2.3 However, training and development is a personal responsibility of all persons appointed to sit on the Pension Committees and a pension board, and this should be considered when undertaking these duties.
- 2.4 Attached at Appendix One is a proposed training matrix which takes into account the relevant areas of understanding for Trustees and suggestions are welcome on any other areas to be covered.
- 2.5 This year, Trustees have achieved a total of <> hours training with attendance at training standing at 55%.

### **3.0 Proposals for Trustee training**

- 3.1 The agreed Trustee Training Policy will apply to all committee members as well as the Pension Board members.
- 3.2 Committee Members will undertake three days of training each year as part of their commitment to good scheme governance, which will comprise two days of structured training and one day participating in conference or alternate training opportunities. A personal training record should be maintained for each Member to enable annual reporting.
- 3.3 Where possible training will be offered on a joint basis with the pension board to facilitate good working relationships and shared understanding.
- 3.4 The proposed training program will be reviewed in consideration of differing circumstances throughout the year, e.g. legislative changes, Trustee requests etc.
- 3.5 In addition, it was proposed at the last meeting of the Investment and Engagement Sub-Committee of the Shadow Scheme Advisory Board that it would be desirable if the shadow or statutory Scheme Advisory Board developed and published knowledge and understanding guidance for pensions committee members on making investments in the LGPS. Should this be forthcoming, the timetable for training will be reviewed accordingly.

### **4.0 The Pension Board**

- 4.1 In addition to the training requirements of Committee members, after 1 April 2015 those persons appointed to sit on the local pension board will be required to have the necessary knowledge and understanding to undertake their roles in assisting with the good governance of the Fund.
- 4.2 There are areas of knowledge that will be specific to the pension board and therefore training on these areas will be held specifically for the pension board. However, the sessions will be open to Trustees should they wish to attend as additional training sessions.

### **5.0 Financial implications**

- 5.1 There will be additional cost incurred in training pension board members. This cost will be provided for in the Trustee training budget.

### **6.0 Legal implications**

- 6.1 The requirements for training are set out in the profession's code of practice guidelines. Pension Board members have a duty under the statutory guidance to ensure they have the required knowledge and skill to undertake their roles.
- 6.2 Failure to adhere to these duties may result in challenge from external parties. There is also the possibility of intervention from the Pensions Regulator.

## **7.0 Equalities implications**

7.1 None identified.

## **8.0 Environmental implications**

8.1 None identified

## **9.0 Human resources implications**

9.1 None identified

## **10.0 Corporate landlord implications**

10.1 None identified

## **11.0 Schedule of background papers**

11.1 CIPFA Knowledge and Skills

<http://www.cipfa.org/policy-and-guidance/publications/p/pensions-finance-knowledge-and-skills-framework--technical-guidance-for-elected-representatives-and-nonexecutives-in-the-public-sector>

11.2 Public Service Pensions Act 2013

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

## **12.0 Appendices**

12.1 Appendix One

Training matrix for Trustee and Pension Board Members



**THE WEST MIDLANDS PENSION FUND KNOWLEDGE AND SKILLS FRAMEWORK**

Area	Date Arranged	Pension Committee Investment Advisory Sub-Committee	Pension Board
<b>Pensions legislative and governance context</b>			
<b>General pensions framework</b>			
A general awareness of the pensions legislative framework in the UK.	19 March 2015		✓
	22 July 2015	✓	✓
<b>Scheme specific legislation</b>			
An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.	19 March 2015		✓
	22 July 2015	✓	✓

An awareness of the LGPS Regulations and their main features.	19 March 2015		✓
	22 July 2015	✓	✓
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	The Committee reviews and approves the administering authority discretions annually or as changes arise.	✓	✓
	The Committee receives an annual report on the discretions that may be exercised by employers.	✓	✓
A regularly updated appreciation of the latest changes to the scheme rules.	The Committee receives regular reports on proposed and enacted legislation.	✓	✓
Knowledge of the role of the administering authority in relation to the LGPS.	The Committee considers it's Governance Compliance Statement at least annually.	✓	✓
	19 March 2015	✓	✓
	22 July 2015	✓	

<b>Pensions regulators and advisors</b>			
An understanding of how the roles and powers of the Pensions Regulator, the Scheme Advisory Board relate to the workings of the scheme.	19 March 2015		✓
	22 July 2015	✓	✓
<b>General constitutional framework</b>			
Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.	The Committee considers its Governance Compliance Statement at least annually.		✓
	19 March 2015	✓	✓
The service plan, medium term financial plan and local performance indicators.	22 July 2015	✓	✓
A Risk Management workshop	Arranged bi-annually with the Compliance team.		
Awareness of the role and statutory responsibilities of the S151 and monitoring officer.	19 March 2015		✓
	22 July 2015	✓	✓

<b>Pension scheme governance</b>			
An awareness of the LGPS main features.	19 March 2015		✓
	22 July 2015	✓	✓
Knowledge of the Myners Principles and associated CIPFA & SOLACE guidance.	19 March 2015		✓
	22 July 2015	✓	✓
Assurance Framework	19 March 2015	✓	✓
A detailed knowledge of the duties and responsibilities of committee members.	19 March 2015		✓
	22 July 2015	All (Trustee Induction Training)	
Knowledge of the stakeholders of the pension fund and the nature of their interests.	19 March 2015		✓
	22 July 2015	✓	✓

<p>Knowledge of consultation, communication and involvement options relevant to the stakeholders.</p>	<p>19 March 2015</p> <p>22 July 2015</p> <p>This is covered in the Communications Policy Statement, which is reviewed periodically by the Committee.</p>	<p>✓</p>	<p>✓</p> <p>✓</p>
<p><b>Pensions accounting and auditing standards</b></p>			
<p>Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.</p>	<p>November 2015</p>	<p>✓</p>	<p>✓</p>
<p>Awareness of the role of both internal and external audit in the governance and assurance process.</p>	<p>November 2015</p>	<p>✓</p>	<p>✓</p>

<b>Financial services procurement and relationship management</b>			
<b>Understanding public procurement</b>			
Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.	November 2015	✓	✓
A general understanding of the main public procurement requirements of UK and EU legislation.	November 2015	✓	✓
<b>Supplier risk management</b>			
Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	19 March 2015 22 July 2015	✓	✓

<b>Performance and risk management</b>			
<b>Total fund</b>			
Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks.	November 2015	✓	✓
<b>Performance of advisors</b>			
Awareness of the Myners principles of performance management and the approach adopted by the committee.	November 2015	✓	✓
Training on the role of the Investment Advisor	November 2015	✓	✓
<b>Performance of the committee</b>			
Awareness of the Myners principles and the need to set targets for the committee and to report against them.	November 2015	✓	✓

<b>Performance of support services</b>			
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	November 2015	✓	✓
<b>Financial markets and products knowledge</b>			
<b>Investment strategy</b>			
Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).	November 2015	✓	✓
The main asset classes of Equities, Bonds and Property, market overview, restructuring of the portfolio and the investment plan, sustainability, retail and residential.	November 2015	✓	✓
Private Equity, Absolute return, Passive versus Active,	November 2015	✓	✓
Corporate Governance and Shareholder Activism,	November 2015	✓	✓
Responsible Investment			



Understanding of the role of these asset classes in long term pension fund investing.	November 2015	✓	✓
<b>Financial markets</b>			
Understanding of the primary importance of the investment strategy decision.	November 2015	✓	✓
A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	November 2015	✓	✓
An awareness of the limits placed by regulation on the investment activities of local government pension funds.	November 2015	✓	✓

<b>Actuarial methods, standards and practices</b>			
<b>Valuations</b>			
Knowledge of the valuation process, including developing the funding strategy in conjunction with the Fund actuary, and inter-valuation monitoring.  Actuarial valuations, the funding level and the Funding Strategy Statement  Asset Liability Modelling	November 2015	✓	✓
Awareness of the importance of monitoring early and ill health retirement strain costs.	November 2015	✓	✓
A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.	November 2015	✓	✓
<b>Outsourcing</b>			
A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.	November 2015	✓	✓

<b>Governance and Decision Making</b>			
The decision making process including delegations and the relationship with the Administering Authority	19 March 2015		✓
Understanding Due Diligence	19 March 2015		✓
Pensions Regulator Code of Practice	19 March 2015		✓
Statutory Guidance issued by the Scheme Advisory Board	19 March 2015		✓

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# Pensions Committee

18 March 2015

<b>Report title</b>	Governance Reform 2014, Implementing the Pension Board	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	<a href="mailto:Rachel.howe@wolverhampton.gov.uk">Rachel.howe@wolverhampton.gov.uk</a>
<b>Report has been considered by</b>	Geik Drever,	Strategic Director of Pensions
	Tel	01902 552020
	Email	<a href="mailto:Geik.drever@wolverhampton.gov.uk">Geik.drever@wolverhampton.gov.uk</a>

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## Recommendation(s) for action or decision:

The Committee is recommended to:

1. Appoint the five Trade Union representatives to the Pension Board
2. To formally close the Joint Consultative Forum from 31 March 2015
3. Approve the revised Governance Statement 2015.

## Recommendations for noting:

The Committee is asked to note:

1. The appointment of Chris West, Executive Director of Resources at Coventry City Council as the fifth employer representative.
2. The proposal to seek nominations from Full Council for two Wolverhampton Councillors to sit on the Pension Board from June 2015.
3. The process for seeking trade union representatives (once of which will represent our pensioners interests) to pension committee for the next municipal year.

## **1.0 Purpose**

1.1 To seek appointment of member representatives to the Pension Board.

## **2.0 Background**

2.1 Following Pension Committee's approval to appoint the employer representatives from the Governance Review Working Party as full members of the pension board after 1 April 2015, officers from the Fund have been in contact with the four trade unions and the TUC to seek member representatives.

2.2 Committee will recall that we were outstanding one employer representative from our contractor employer group on the working party and that we were approaching this employer group to seek nominations.

2.3 Unfortunately, no representative from our contractor group was forthcoming and at Standards Committee in January 2015, it was proposed that we seek to appoint a District Council Finance Director to the board to fill the vacancy.

## **3.0 Work Undertaken**

3.1 Following discussions with the Finance Directors, a nomination has been received from Chris West, Executive Director of Resources at Coventry City Council.

3.2 In addition, officers at the Fund have been in contact with the Trade Unions, Unison, UCATT, Unite and GMB together with the TUC to seek their involvement in the recruitment of member representatives to the pension board.

3.4 In response 5 nominations from the unions were received,

- 2 from Unison, Sharon Campion and Adrian Turner
- 1 from Unite, Lee Nash
- 1 from GMB Annette King
- 1 from UCATT Paul Sayers

## **4.0 Next Steps**

4.1 Following the appointment of these nominations, an induction session has been arranged for 19 March 2015 when members of the pension board will be given a full day's training on the role of the pension board, their responsibilities and an overview of their work program as detailed in the report "Scheme Advisory Board Performance and Benchmarking" also on this committee's agenda.

4.2 Currently, it is anticipated that the work of the pension board will function separately to that of the decision-making pension committee and therefore meetings will be held on a different rotation.

- 4.3 Members of the pension board will have access to all committee papers.
- 4.4 As detailed in previous reports, it is proposed that two Wolverhampton Elected Councillors will move from Pensions Committee to the pension board at the start of the new municipal year in consideration of the new role of the pension board and in recognition of the experience and leadership of our elected councillors.
- 4.5 Nominations to Committees are made at Full Council's annual meeting in May and we will seek nominations to the pension board at this time.

## **5.0 Other considerations**

- 5.1 As previously reported, with the requirement to have a local pension board it is proposed to formally close the Joint Consultative Forum which sits as a sounding board to committee.
- 5.2 The valued benefit of this group has been previously acknowledged in the continued approval of their appointment as non-voting observers to the pension committee and nominations to these 4 seats (one of which will be a pensioner group) will be sought directly from the trade unions in readiness for formal appointment at committee's annual meeting in June.
- 5.3 Trade union observers appointed to Pension Committee will sit for a term of one year and will have the opportunity to sit on the Fund's Investment Advisory Sub-Committee.

## **6.0 Governance Compliance Statement**

- 6.1 In seeking approval to the proposed implementation of the pension board, attached at Appendix One is a revised Governance statement which reflects the governance structure of the Fund from 1 April 2015.

## **7.0 Financial implications**

- 7.1 There are no financial implications.

## **8.0 Legal implications**

- 8.1 The Public Service Pensions Act 2013 requires the Fund to appoint equal employer and member representatives to its pension board. It does not prevent those representatives being trade union members.

## **9.0 Equalities implications**

- 9.1 There are no equalities implications.

## **10.0 Schedule of background papers**

- 10.1 Pension Committee 25 June 2014 Governance Reform report  
<http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4112&Ver=4>
- 11.2 Pension Committee 24 September 2014 Governance Reform update report  
<http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4113&Ver=4>
- 11.3 Pension Committee 10 December 2014 Governance Reform report  
<http://wolverhampton.moderngov.co.uk/documents/s6276/14.Governance.reform.pdf>
- 11.4 Public Service Pensions Act 2013  
<http://www.legislation.gov.uk/ukpga/2013/25/contents/enacted>

## **12.0 Appendices**

- 12.1 Appendix One - Governance Compliance Statement 2015.





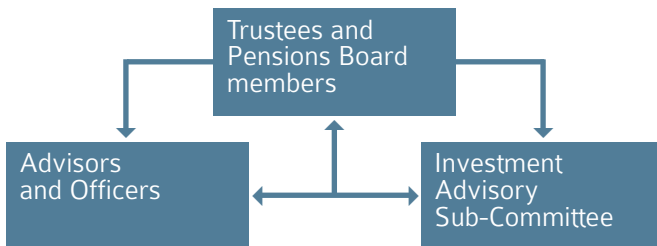
# Governance Compliance Statement 2015

March 2015

# Governance Compliance Statement 2015

## Governance of the Fund

The Fund's governance arrangement has three elements:



## Pensions Committee

The management, administration of benefits and strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by the City of Wolverhampton 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:

- 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 be responsible for compliance with legislation and best practice.
- 2) To determine admission policy and agreements.
- 3) To monitor pension administration arrangements.
- 4) To determine investment strategy based on a medium-term benchmark.
- 5) To approve policy.
- 6) To appoint committee advisors.
- 7) To determine detailed management budgets.

The full delegation from Council to Pensions Committee can be found in the Fund's website.

## Investment Advisory Sub-Committee

The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises of representatives from the seven district councils and local trade union representatives.

The full outline of its role can be found in the terms of reference provided on the Fund's website.

The Sub-Committee meets at least four times a year and its key duties are:

- 1) To monitor the Fund's investment performance.
- 2) To monitor investment activity and the implementation investment strategy.
- 3) To monitor and review the Fund's investment of management awareness
- 4) To monitor and review detailed plans for individual asset classes.

The Strategic Director of Pensions oversees the implementation of Committee policy and the management of the day-to-day operational functions through the Fund's staff delivering Fund services. The Committee and its elected members are advised and supported by the Managing Director, Strategic Director of Pensions and Senior Finance and Legal Officers from the City of Wolverhampton Council.

## Trade Union Representations and Provision of Information to Interested Parties

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The Fund invites relevant trade unions to send local representatives to sit as observers on the Pensions Committee by annual nomination.

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.

## Local Pensions Board

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The local Pensions Board assists the Pensions Committee with the good governance of the scheme ensuring the Fund's adherence to legislation, statutory codes of practice and guidance.

Consisting of six member representatives and six employer representatives, two of which are City of Wolverhampton Council councillors, the Board ensures the good performance of the Fund through monitoring of the Scheme Advisory Board's benchmarking criteria and working with officers to ensure the highest standards are met.

## Advisors and Officers

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Investments and pensions administration are complex areas and the Fund recognises the need for its trustees and Pensions Board members to receive appropriate and timely advice. Against this background, its principal advisors are as follows:

- i) High level advice on general management from the Managing Director of the City of Wolverhampton Council.
- ii) Legal and general administrative advice and management from the Senior Legal Officer of the City of Wolverhampton Council who is also the monitoring officer for the Council.
- iii) Financial and technical advice from the Strategic 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) The Council's Director of Finance is also the Section 151 Officer for the Fund (with the Head of Finance, as the Deputy Section 151 Officer for the Fund, having operational responsibility on a day-to-day basis). The Director of Finance is also the Fund's Compliance Officer as set out in its *Compliance Manual*.

- vii) A range of external specialist advisors are appointed, covering areas such as:

- Investment strategy, asset allocation and investment matters generally.
- Actuarial matters.
- Property management matters.
- Corporate governance and responsible investment issues.

Details of the Fund's advisers are published in the Fund's annual report and accounts.

## Role of Council Members

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The City of Wolverhampton 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.

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 them. 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 but 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 judgments 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 and accounts.

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 judgment's 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.

## 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 his powers of investment is that he must take such care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he felt morally bound to provide.

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

## Role of a Pensions Board member

*"The scheme manager (Pensions Committee) for a scheme has a Pensions Board with responsibility for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator. The Pensions Board must also assist the scheme manager with such other matters as the scheme regulations may specify."*

A member of the Pensions Board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a Pensions Board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that

- appropriate for the purposes of enabling the individual to properly
- exercise the functions of a member of the Pensions Board

In appointing representatives to the Pensions Board, the Committee must be satisfied:

- that a person to be appointed as a member of the Pensions board does not have a conflict of interest and
- from time to time, that none of the members of the Pensions Board has a conflict of interest

Each member or proposed member of a Pensions Board must provide such information as is reasonably required for the purposes of reviewing actual or potential conflicts of Pensions Board members.

A conflict of interest may arise when Pensions Board members must fulfil their statutory role of assisting the scheme manager in securing compliance with the scheme regulations, other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator or with any other matter for which they are responsible, whilst having a separate personal interest (financial or otherwise), the nature of which gives rise to a possible conflict with their statutory role.

## View of Secretary of State

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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 businesslike 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

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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 and Pension Board members and officers have the relevant skills and knowledge. The Fund applies the CIPFA Knowledge and Skills Framework to achieve this objective and meets the legislative requirements set out in the Public Service Pensions Act 2013.

### 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 and Pension Board member training policy, and includes in its annual report and accounts details of the knowledge and skills development undertaken by its these members. The Fund also has in place effective training monitoring and is able to demonstrate

- 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

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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 Pension Board is seen as the main area of involvement of active, deferred and pensioner members. The Fund does engage directly with individual members providing relevant information, the content determined by the responses to the information provided and requested.

## Origins of the Fund and Responsibilities

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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 across the region.

The changes in responsibility for the delivery of Council services has 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 with the largest employer group being academies.

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  
(the City of Wolverhampton 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.

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## Compliance and Best Practice

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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.

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## The West Midlands Integrated Transport Authority

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In addition to the management and administration pensions on behalf of the local authority employers within the West Midlands, the Fund also undertakes this role on behalf of the West Midlands Integrated Transport Authority (WMITA) by delegation under S101 of the Local Government Act 1972.

The governance arrangements set out in this policy apply to the Fund's management of the WMITA Fund also with the additional requirement to report back to WMITA once a year.

**West Midlands Pension Fund**

PO Box 3948  
Wolverhampton  
WV1 1 XP  
United Kingdom

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# Pensions Committee

18 March 2015

<b>Report title</b>	Governance Reform 2014, Delegation of Integrated Transport Authority	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Rachel Howe Tel Email	Head of Governance 01902 552091 <a href="mailto:Rachel.howe@wolverhampton.gov.uk">Rachel.howe@wolverhampton.gov.uk</a>
<b>Report has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 <a href="mailto:Geik.drever@wolverhampton.gov.uk">Geik.drever@wolverhampton.gov.uk</a>
<b>Consultees</b>	West Midlands Integrated Transport Authority Committee	28 January 2015

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## Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve that as of the new Municipal Year, the Pension Committee of the West Midlands Pension Fund receive the delegation to oversee the management, administration and review of all financial matters of the WMITA Pension Fund.
2. Delegate responsibility to the Strategic Director of Pensions to oversee the implementation of the delegation.

## Recommendations for noting:

The Committee is asked to note:

1. That the West Midlands Integrated Transport Authority (WMITA) has delegated under S101 of the Local Government Act 1972, the administration and management of the WMITA Pension Fund to the West Midlands Pension Fund (WMPF) Pension Committee.

## **1.0 Purpose**

- 1.1 To seek agreement from this Committee on the final proposals of the governance reform after 1 April 2015 and accept the delegation from WMITA to manage and administer the WMITA pension fund after June 2015.

## **2.0 Background**

- 2.1 The Finance and Delivery Committee of WMITA (ITA Committee) have received a number of reports since July 2014 on the DCLG consultation and proposed changes to pension governance.
- 2.2 At its meeting on 12 January 2015 the ITA Committee considered three options for oversight of the fund that would meet the legislative requirements.
- 2.3 The ITA Committee agreed that the most appropriate option would be for responsibility of oversight and scrutiny of the WMITA pension fund to be delegated to the pension committee.
- 2.4 This would deliver economies of scale in efficient and effective operation, and ensure that the training and education requirements under the new legislation would be met through the WMPF training programme.
- 2.5 This would effectively bring together all of the West Midlands local government pension schemes under one governance structure.

## **3.0 Considerations**

- 3.1 Delegation from ITA to WMPF is permissible under S101 of the Local Government Act 1972 which provides for local authorities to delegate responsibility for functions to any committee, officer or other local authority.
- 3.2 In delegating the ability to take decisions on behalf of the WMITA pension fund, WMPF still remains accountable to the WMITA and is required to report at least annually to its committee as part of the delegation.
- 3.3 WMITA will remain liable for the WMITA pension fund.
- 3.4 Such a delegation would not change the day to day management and running of the fund, nor the responsibilities of the WMITA strategy panel and employer involvement but would strengthen the overall governance structures, which provide the best interest to pension fund members while remaining accountable to the WMITA.
- 3.5 A diagram of the proposed overview and scrutiny structure is set out in Appendix One.

#### **4.0 Next Steps**

- 4.1 If Committee approve this proposal then officers will begin the implementation of change to ensure a smooth transition into the next municipal year which would see the WMPF pension committee take over the decision making for the management and administration of the WMITA fund from the next municipal year.
- 4.2 This delegation will also provide for one local pension board serving both funds. Under the final regulations, pension funds seeking to establish joint pension boards require permission of the Secretary of State and following correspondence with Bob Holloway at DCLG, we are in the process of applying for permission to establish this joint pension board.

#### **5.0 Financial implications**

- 5.1 It is acknowledged that the reform required under the 2013 Act will create a significant pull on the resources of WMPF in administering not only the changes, but the consultation, feedback and training required by these changes together with the amendment to the Fund's literature, website and information mediums.
- 5.2 WMPF already updates its literature and policies on an annual basis and this proposal minimises the amendments required to these, and as such any changes resulting from this proposal can be incorporated into the Fund's general work.
- 5.3 WMPF currently charges the ITA Fund £150,000 per year for management, made up of £30,000 investment management and £120,000 administration expenses. It is proposed that this charge would be reviewed under the new arrangements, and costs will be apportioned appropriately between the two funds.

#### **6.0 Legal implications**

- 6.1 As detailed in the report.

#### **7.0 Equalities implications**

- 7.1 None identified.

#### **8.0 Environmental implications**

- 8.1 None identified

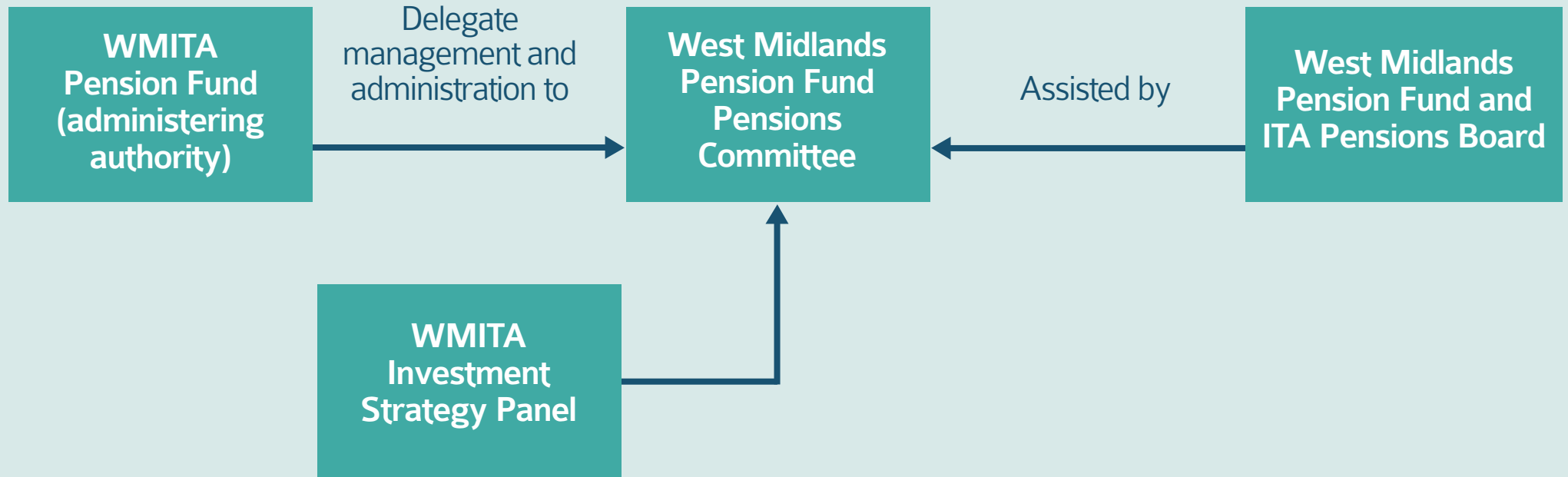
## **9.0 Schedule of background papers**

- 9.1 Public Service Pensions Act 2013  
<http://www.legislation.gov.uk/ukpga/2013/25/contents/enacted>
- 9.2 Consultation on October (second) draft regulations  
<https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations-2014-better-governance-and-improved-accountability>
- 9.3 Consultation on the draft statutory guidance  
<http://www.lgpsboard.org/index.php/about-the-board/board-consultations>
- 9.4 Guidance issued by the Pensions Regulator  
<http://www.thepensionsregulator.gov.uk/employers/detailed-guidance.aspx>
- 9.5 Report to Finance, Delivery and Performance Monitoring Committee 10 November 2014.  
<http://www.centro.org.uk/media/568343/ita-pension-governance-reform.pdf>
- 9.6 Report to Finance, Delivery and Performance Monitoring Committee 12 January 2015.  
<http://www.centro.org.uk/media/568324/8-pension-governance-reform.pdf>
- 9.7 Report to WMITA Committee 28 January 2015.

## **10.0 Appendices**

- 10.1 Appendix One - Proposed structure chart.

# ITA Delegation to West Midlands Pension Fund



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# Pensions Committee

18 March 2015

<b>Report title</b>	Fiduciary Duty in the Local Government Pension Scheme – Counsel’s opinion	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	<a href="mailto:Rachel.howe@wolverhampton.gov.uk">Rachel.howe@wolverhampton.gov.uk</a>
<b>Report has been considered by</b>	Geik Drever	Strategic Director of Pensions
	Tel	01902 552020
	Email	<a href="mailto:Geik.drever@wolverhampton.gov.uk">Geik.drever@wolverhampton.gov.uk</a>

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## Recommendations for noting:

The Committee is asked to note:

1. The contents of the report

## **1.0 Purpose**

- 1.1 To present Counsel's opinion on
- the requirement to meet benefit payments separate from the status of funds; and
  - the interaction between the LGPS and the EU Institutions for Occupational Retirement Provision Directive 2003 (IORP 1)

## **2.0 Background**

- 2.1 The LGPS has always been considered one of the safest pension schemes in the UK because it is defined and governed by statute.
- 2.2 In September 2014, the LGA sought clarification on this point from Queen's Counsel in order to determine where the liability for payment of the scheme rests and what would happen should schemes run out of money.
- 2.3 In addition, they sought clarification as to whether the IORP 1 applied to the LGPS scheme.

## **3.0 Counsel's Opinion**

- 3.1 In requesting this advice, the LGA sought to answer 3 specific questions
1. What the rights and duties of the Administering Authority are, as against an employing authority which fails to pay contributions as they fall due?"
  2. What happens if the assets of the fund are insufficient to pay benefits as they fall due?  
Is there an "ultimate guarantor" of the benefits payable to scheme members whether the administering authority, or central government?
  3. What happens if a local authority does run out of money to satisfy all of its obligations as they fall due, so that it is "insolvent" in the everyday sense?
- 3.2 In addressing these questions Counsel determined that in the strict reading of the legislation there is no guarantor to the LGPS and that neither Administrative Authorities or Central Government could be held responsible to pay pension benefits where there is no money to pay. Members of the LGPS would be considered as unsecured creditors with no preferential treatment to be paid their benefits.

Ultimately the last employer in the scheme will be responsible for ensuring benefits are paid.



- 3.3 In providing this advice however, Counsel does not believe that such circumstances could ever occur given the tax raising powers of both local authorities and central government believing there would be legal intervention before the situation became so severe.
- 3.4 In referring to the IORP Directive, Counsel states that the Directive does apply to the LGPS and that in its current form the LGPS is compliant with the requirements it imposes given its separation of the Fund assets from those of the Administering Authority. This prevents one being used by the other in times of financial hardship.

#### **4.0 The Response from the Shadow Advisory Board (SAB)**

- 4.1 In considering Counsel's opinion, the SAB consider the lack of guarantee for the LGPS to be "untenable" and are now proposing to ask DCLG to change the regulations in order to require administering authorities to pay benefits.
- 4.2 In response to the IORP 1, the SAB are further proposing to recommend to DCLG changes to investment regulations which will ensure that relevant parts of the IORP 1 are adopted.
- 4.2 A full copy of Counsel's advice is attached as Appendix One.

#### **5.0 Financial implications**

- 5.1 This report has no direct financial implications. Counsel's opinion deals with some extreme financial scenarios which are considered unlikely to occur. The Fund has appropriate monitoring arrangements in place to ensure that it would be well-positioned to anticipate such developments.

#### **6.0 Legal implications**

- 6.1 This report details some extreme scenarios which, if they came to fruition would have legal implications for the Fund. However, as noted within the report these scenarios are unlikely to occur and as such the report contains no legal implications.

#### **7.0 Equalities implications**

- 7.1 There are no implications

#### **8.0 Schedule of background papers**

- 8.1 EU IORP Directive  
<http://www.pensionseurope.eu/iorp-directive>

#### **9.0 Appendices**

- 9.1 Appendix One - Opinion of Queen's Counsel, Nigel Giffin

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FINANCING AND REGULATION OF THE LOCAL GOVERNMENT PENSION  
SCHEME

OPINION

1. I am instructed to advise the Local Government Association ("the LGA"). The LGA, on behalf of its members, is concerned to understand, in certain particular respects, the nature of the duties which fall upon the administering authorities of funds established for the purposes of the Local Government Pension Scheme ("LGPS"). This Opinion, along with a previous Opinion of 25 March 2014, is by way of confirmation of advice previously given in consultation.
2. I have referred in the Opinion of 25 March 2014 to the legislation which governs the LGPS, in particular now the Local Government Pension Scheme Regulations 2013, and to the role of the administering authority, and I need not repeat those matters here.
3. This Opinion is concerned specifically with two issues. The first relates to the ultimate responsibility for the payment of LGPS benefits. The second concerns the relevance to the LGPS and its regulation of Directive 2003/41/EC on the Activities and Supervision of Institutions for Occupational Retirement Provision, often known as "IORP I".

Responsibility for the payment of benefits

4. The LGPS is organised into distinct funds. Aside from employee contributions, which are made at a fixed rate (set out in r.9 of the 2013 Regulations) regardless of the state of the fund, and any positive growth achieved through investment, the fund is financed essentially by payments from the scheme employers. Principally this means contributions, set at a percentage of the pensionable earnings of active members. That

percentage will be set every 3 years by the scheme actuary by way of a rates and adjustments certificate under r.62, obviously with a view to the fund being able to meet members' entitlements under the scheme. When an employer ceases to be a scheme employer, or to have active members (which means it will cease to make contributions – see *R (South Tyneside MBC) v Lord Chancellor* [2009] ICR 1352), it must make an exit payment under r.64, to meet the anticipated cost of the benefits of its current and former employees. Where the exit payment cannot be recovered from the exiting employer, the equivalent sum must be recovered from the remaining scheme employers through revised contributions<sup>1</sup>.

5. It follows that, for so long as there is at least one solvent employer which employs active members, the fund should in principle be able to obtain the monies that it needs. Whilst it is theoretically possible that a time might come when there were no active members<sup>2</sup>, and thus no further ability to call for employer contributions, this is highly unlikely so long as something akin to the current legislation remains in force – since local authority employees have a right to join the LGPS, and it continues to represent an advantageous form of pension provision from the employee perspective.
6. Further, the covenant of a local authority employer is by any normal standards extremely strong. Not only do local authorities typically have very considerable turnover, assets and reserves, they are in receipt of very substantial government revenue grants, and they have tax-raising powers of their own.

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<sup>1</sup> The existence of this provision renders it less necessary to consider how far the setting of ordinary employer's contributions, as adjusted, should take account of the deficit in the fund generally, as opposed to the deficit attributable to the service of members with the particular employer in question.

<sup>2</sup> And as I read the 2013 Regulations, the last exiting employer would only have to make an exit payment that related to its own former employees, even if that left a deficit in relation to other members (e.g. because investment performance had proved worse than had been anticipated when exit payments were made by their employers).

7. Nonetheless, it is perhaps not so obvious as it once was that all local authorities will always have the ability to pay whatever LGPS contributions are required, whenever they fall due<sup>3</sup>. It is notoriously the case that authorities are experiencing a period of extreme financial stringency. Concerns have been expressed as to whether some smaller authorities, and even some large ones, will continue to be able to discharge all their mandatory statutory obligations within their available resources. Additionally, there are some constraints as to the extent to which an authority may increase its council tax (if it is a billing authority – or its precept if it is a precepting authority). The nature of those constraints has varied from time to time. At the moment, Chapter 4ZA of Part I of the Local Government Finance Act 1992 means in essence that, if a proposed level of council tax is “excessive” in accordance with principles determined by the Secretary of State, it may not be implemented unless approved in a local referendum.
8. It is thus not inconceivable that some combination of increasing longevity and poor investment performance, coupled with more general adverse financial conditions for scheme employers, might push required contributions up to a level that the remaining employer or employers could not readily pay – especially if insolvency or the termination of active membership had eliminated contributions from employers other than local authorities.
9. In principle, an employer authority which could not otherwise meet its contributions would need either to reduce other expenditure, or to raise council tax or draw upon reserves, to the extent necessary to meet its obligations in that respect. However, it is at least theoretically possible to imagine some future situation in which reserves were effectively

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<sup>3</sup> I have been asked in general terms about the status of the Environment Agency as both an administering and an employing authority under the LGPS. In general, what I say in this Opinion about local authorities would apply to the Environment Agency as well (paragraph 22 below may be an exception). If there are any specific queries that arise in relation to the Environment Agency, I shall be happy to address them further.

exhausted, discretionary expenditure had been cut to negligible levels, and the level of required contributions (including exit payments in the event of insolvency on the part of the exiting employer) had reached a point at which it exceeded anything that could be met within the limits of whatever legislation then governed council tax increases (or perhaps the limits of what the authority could in practice raise from local taxpayers regardless of the legal position). Even short of that point one can imagine that there might be limits to how far an authority's elected members would in practice be willing to cut other services or raise council tax in order to pay LGPS contributions. If this was merely a short-term issue, it would no doubt be dealt with by some sensible rescheduling of contributions, but it is possible that the problem might be more systemic than that.

10. I must say that, from a political as opposed to a legal perspective (and for what my views from such a perspective may be worth), I find it well-nigh inconceivable that central government would allow matters to reach the stage of a complete collapse in local authority finances, and default upon authorities' legal obligations, without undertaking some form of intervention first. What that intervention might look like is another matter: it might involve, for example, legislation to reduce LGPS benefits rather than, or as well as, the provision of additional finance. Subject only to such constraints as might be imposed by the Insolvency Directive (see paragraph 20 below) or by the European Convention on Human Rights<sup>4</sup>, it would be a matter for the government and (potentially) Parliament to decide how to address such a crisis.

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<sup>4</sup> Accrued pension rights will usually amount to possessions within the meaning of Article 1 of the First Protocol to the ECHR, so that any interference with them (e.g. by legislation reducing the level of benefits payable in respect of past service) would have to be justified. But financial crisis might in principle constitute such justification, although the test might well be stringently applied in such a context: see e.g. the discussion in *R (Public and Commercial Services Union) v Minister for the Civil Service* [2011] IRLR 903.

11. Nonetheless, I am asked to consider what the legal position would be in the absence of such intervention. I shall do so by reference to three questions that have been raised with me.

12. The first question is what the rights and duties of the administering authority are, as against an employing authority which fails to pay contributions as they fall due. In my view it is reasonably clear that the 2013 Regulations operate so as to make those contributions a statutory debt, for which the administering authority could sue in the ordinary courts<sup>5</sup>. I also consider that the administering authority is in principle obliged to take such steps as are open to it, including by way of litigation, in order to recover unpaid contributions. This must follow from its fiduciary and public law duties. I do not mean to suggest that the administering authority has to issue a claim form the moment that an employer fails to pay its contributions on time: there may be sensible reasons for not doing so, in particular if the default is the result of a temporary problem which will shortly be remedied. But ultimately the administering authority must behave in much the same way as any creditor in an arm's-length relationship with its debtor would behave<sup>6</sup>.

13. I would add that under r.71 of the 2013 Regulations the administering authority is empowered to require interest to be paid on contributions that are overdue by more than a month. This is a discretionary power, so its exercise is evidently not to be automatic. Amongst other possible considerations, the reason why the contributions were paid late might well be material (e.g. if the delay resulted from administrative error, or a

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<sup>5</sup> In *Tees Conservancy Commissioners v James* [1935] Ch 544 that was held not to be the case in relation to employee contributions, to the fund established under the Tees Conservancy Act 1907. But that was in my view the result of the fact that the Act provided for the deduction of contributions from wages, and contained no indication that they were liable to be paid in any other way. By contrast, r.67 of the 2013 Regulations imposes clear obligations upon the employer to contribute and to pay.

<sup>6</sup> Some mention was made in consultation of the possibility of powers being exercised by the Pensions Regulator. So far as I can see, however, the LGPS is taken outside the scope of the most obviously relevant tPR powers (e.g. under ss 38 and 43 of the Pensions Act 2004) by virtue of being prescribed by delegated legislation.

genuine issue about the amount properly due). Nonetheless, my view is that the administering authority should normally exercise the power to charge interest, certainly where the employer has simply failed to pay on time. Again, this seems to me to flow from the administering authority's fiduciary duty or similar public law duties: it should generally seek to maximise the financial resources of the fund, and it is not right that the cost of late payment (or the lost benefit of having the money for longer) should rest with the fund rather than with the defaulting employer.

14. The second question is what happens if the assets of the fund are insufficient to pay benefits as they fall due. Is there an "ultimate guarantor" of the benefits payable to scheme members, whether the administering authority or central government?

15. So far as the administering authority is concerned, the question is whether it would under those circumstances be under an obligation to make the payments from its own resources apart from the fund. Except perhaps in the short term, the question of whether the administering authority was obliged to pay benefit entitlements out of its own general resources should only be of practical significance if that authority had ceased itself to be an employer of active members (otherwise, the same result would simply follow indirectly, because of the increase in its contributions that would be required<sup>7</sup>). If the administering authority could not afford to pay its contributions as an employer, then recharacterising its obligations as ones owed in the capacity of administering authority would not help to extract money from it that it did not have.

16. But if the point was reached at which the issue did arise, my view is that the administering authority would owe no obligation to pay benefits to members otherwise than out of the assets of the fund. I say that for the following reasons:

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<sup>7</sup> Subject to the possibility that the raising of its contributions might have to wait until the next triennial review.



- (i) There is nothing in the language of the Regulations which in terms imposes such an obligation. Given its potentially very burdensome nature<sup>8</sup>, one would have expected any such obligation to be clearly and explicitly imposed. For the most part<sup>9</sup>, the provisions which confer an entitlement to benefits are couched simply in the language of being entitled to payment of a pension, which leaves open the question of what person or assets that entitlement is enforceable against. Putting the point another way, they are not expressed in terms of a right to be paid monies by the administering authority, or in terms of the administering authority being under a duty to make such payments;
- (ii) Rather, the role of the administering authority is said to be one of management and administration;
- (iii) The whole concept of a segregated fund tends to suggest that it is from the fund that the relevant payments are to be made. This is consistent with r.4 of the Investment Regulations, which regulates the payments that may be made into or out of the fund, and with the provisions regarding employer contributions and payments, which are clearly intended to meet benefit liabilities without further payments by the administering authority (even if it is possible to conceive of circumstances in which that intention might not be fully achieved);
- (iv) It is true that an LGPS fund is not a trust fund as such, so that if looked at strictly in terms of ownership there is no distinction between the assets of the fund and the other assets of the

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<sup>8</sup> The administering authority will often also be the largest employer for its fund, but that is not invariably the case, and the liabilities attributable to other employers may certainly be very substantial.

<sup>9</sup> An exception is to be found in r.40 of the 2013 Regulations, which says that the administering authority "shall pay a death grant". But I do not think that this relatively peripheral case should drive the interpretation of the Regulations as a whole.

administering authority: see *Re Bain* 2002 SLT 1112<sup>10</sup>. But the administering authority is certainly not entitled to treat the money in the fund as if it was simply its own money (cf. *Walter v Eton RDC* [1951] 1 KB 84). Conversely, it is not in my view obliged to treat fund liabilities as if they were its own general liabilities. It is notable that there are references in the legislation to the “liabilities of the main fund” (r.54(4)(a) of the 2013 Regulations) and to the “solvency of the fund” (s 13 of the 2013 Act, and r.62(5) of the 2013 Regulations). It is possible for there to be a liability on a person to pay which is properly analysed as a liability to pay out of a particular fund: see e.g. *Salford Corporation v Lancashire CC* (1890) 25 QBD 384 at 388;

(v) Accordingly, my view is that the 2013 Regulations should be interpreted as meaning that the administering authority has to manage the fund by paying out of it the benefits to which members are entitled, but not as imposing upon the administering authority an obligation to pay those benefits by other means<sup>11</sup>;

(vi) I would add that, if the administering authority could see that the fund would at some point in the future be exhausted, it would nonetheless in my view be obliged to keep paying benefits in full as they fell due, until there were no assets left from which to do so. I can see nothing in the statutory scheme which would allow the administering authority, for example, to pay reduced benefits with a view to being able to make payments for longer or to more members;

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<sup>10</sup> The judgment in the earlier Scottish case of *Martin v City of Edinburgh DC* 1988 SLT 329 proceeds on the basis that the LGPS fund is a trust fund, but it seems to me that this is clearly incorrect (and the point does not appear to have been argued).

<sup>11</sup> I note that Mr Furness QC, in the opinion referred to below, comes to what I understand to be the same conclusion at paragraph 4.

(vii) I have been asked what recourse members might have in the event of non-payment of benefits by the administering authority. If the money was in the fund to pay benefits, then the members could sue for payment. If there was no money in the fund, it may be that a member could obtain a judgment for unpaid benefits, but I would expect any such judgment to be in terms that made it clear that it was enforceable only against assets in the fund, which would mean that it could not in practical terms be enforced unless the position changed. If the administering authority was failing to take all available and sensible steps to get in to the fund monies due from employers or other debtors, then I would expect members to be able to take action to compel it to do so, whether by judicial review or otherwise.

17. For completeness, I note a point which was mentioned to me in consultation, in that there is one administering authority which is a body established for that purpose and no other, namely the South Yorkshire Pension Authority ("SYPA"), established by the Local Government Reorganisation (Pensions etc) (South Yorkshire) Order 1987 (SI 1987 No 2110)<sup>12</sup>. The point made to me is that SYPA has a levy-raising power, and that it was hard to see why such a power should be conferred unless it was because SYPA might have an obligation to pay benefits not limited to what could be met out of the fund (the suggestion being that other administering authorities did not need such a power because they were authorities with tax-raising powers). However, examination of article 4 of the Order shows that the expenditure of SYPA which may be recovered by this means is limited to expenditure and costs which may *not* be paid out of the fund: see article 4(3). In other words, it is talking about administrative expenditure, and not expenditure on benefits. If anything, therefore, the point supports the conclusion expressed in paragraph 16 above: apart from requiring contributions to the fund in the normal way,

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<sup>12</sup> The position of the London Pension Funds Authority is rather different.

SYPA has no means of raising money to pay benefits, and that tends to confirm that an administering authority has no obligation to pay benefits otherwise than out of the fund.

18. Turning to central government, in my view it is not in any direct way the guarantor of, or ultimately responsible for the payment of, LGPS benefits. Neither in the 2013 Regulations, nor in the Superannuation Act 1972 under which they are made, nor in the Public Service Pension Schemes Act 2013 is any such obligation to be found. I am not aware of any statement of commitment by the government which might found a legitimate expectation in public law (and such an expectation is not in any event the same as an absolute legal obligation, departure from it also being capable of being justified by an overriding public interest).

19. It is right to mention that in *Tamlin v Hannaford* [1950] 1 KB 18, Denning LJ said in relation to a statutory corporation (the British Transport Commission) that “the taxpayer is the universal guarantor of the corporation”, that its business could not otherwise continue, and that it was this guarantee which rendered shares, debentures and the like unnecessary. A local authority is also a corporation created by statute. But I do not consider that Denning LJ was laying down some sort of legal principle that the Crown was liable to secure the performance of the obligations of the BTC or any other statutory body. Rather, he was describing how things worked from a political or business perspective (in the context of holding that the BTC was nonetheless not a servant or agent of the Crown): see e.g. his comment that the taxpayer “would no doubt be expected to come to its rescue before the creditors stepped in” (emphasis supplied).

20. It is also true that the government would have to comply with its obligations under the Insolvency Directive (Directive 80/987/EEC), as interpreted by the European Court of Justice in C-278/05 *Robins v Secretary of State for Work and Pensions* [2007] ICR 779 and more

recently in *Hogan v Minister for Social and Family Affairs* [2013] 3 CMLR 27. Article 8 of the Directive requires member states to take the necessary measures to protect the interests of (former) employees in respect of pension rights upon employer insolvency. Since the LGPS has been excluded from eligibility for the Pension Protection Fund, the question might arise as to whether merely placing a funding obligation upon public body employers, with revenue-raising powers and not capable of becoming insolvent in a formal sense, is a sufficient "measure" for article 8 purposes. It is at any rate arguable that it is not, and that if the employing authority in fact became unable to meet its financial obligations, something more would have to be done. However, whatever exactly that "something more" might be (which is certainly not a straightforward question<sup>13</sup>), it is clear that it would not necessarily lead to all benefits being paid in full. *Hogan* appears to interpret the ultimate obligation as being to ensure the payment of 50% of benefits.

21. I have been asked to express a view about "the extent of the risk to members' benefits inherent in the lack of a statutory guarantee". In my view that is a political or economic question, rather than a legal one. The extent of the risk depends on the one hand upon the likelihood of it becoming impossible in practice to recover employers' contributions in sufficient sums to be able to meet benefits as they fall due, and on the other hand upon how central government would react to that situation. I have already made it clear (see paragraph 10 above) that my own view is that it is highly unlikely that central government would not intervene in some way long before the money ran out; but whether such intervention took the form of ensuring the payment of benefits by other means, or reducing benefit entitlements, or some combination of the two, one cannot say. It is perhaps worth making the point that, even if LGPS benefits were guaranteed by central government, that would not make it

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<sup>13</sup> One possibility is that the Secretary of State might not lawfully be able to lay down principles making a particular council tax increase "excessive", if that increase was required in order to meet LGPS contributions.

100% certain that they would be paid in full: in theory at least, governments can default financially, and governments with a majority in Parliament can legislate to reduce even accrued benefit entitlements. But all this seems to me a very long way from any position that has yet been reached.

22. The third question concerns what happens if a local authority does run out of money to satisfy all its obligations as they fall due, so that it is “insolvent” in at any rate the everyday sense of the term. It is clear that local authorities in England and Wales are not subject to the insolvency jurisdiction of the courts: they cannot be wound up or undergo any similar procedure. This is in contrast to the United States, which has its Chapter 9 bankruptcy regime specifically for municipalities. Specifically, a local authority is plainly not a company registered under the Companies Acts, and nor is it an unregistered company within the meaning of s 220 of the Insolvency Act 1986, because it is neither an “association” nor a “company” – it is not formed by the coming together of members. In *Re National Union of Flint Glassworkers* [2006] BCC 828, HHJ Norris QC considered that the court had an inherent jurisdiction “to dissolve any body of any kind for which no other machinery exists for securing its proper winding up” – but even if that is true as a general proposition, it cannot apply to a body, such as a local authority, which is required to exist by virtue of statute.

23. I can see nothing in the legislation which would give any priority to payments required to meet LGPS contributions, or any special rights to an administering authority as a creditor. The only creditor of a local authority which has any such priority is a lender of money to the authority, to the extent set out in s 13 of the Local Government Act 2003. All local authority borrowing is charged on the revenues of the authority (and no other form of security for money owing is valid), and an unpaid lender may apply for the appointment of a receiver to exercise powers including

the setting of council tax. By implication, any other creditor would not be able to seek similar relief – although a refusal by an authority to set council tax at a level which would enable it to meet statutory obligations, including the obligation to make LGPS contributions, might perhaps be challenged by way of judicial review.

24. So if a local authority ran out of money, the first call upon revenues in existence or capable of being raised would belong to its lenders. Thereafter all creditors, including the administering authority, would be in the same position. In the absence of an insolvency regime, it would in effect be “first come, first served” for creditors seeking to obtain and enforce judgments for monies owing, subject to such general discretionary powers as the courts have to allow particular methods of enforcement to be pursued and to stay proceedings and stay execution of judgments. As I say, however, I find it well-nigh inconceivable that central government would permit such a free for all to occur without intervening in some way.

### The IORP I Directive

25. I now turn to the relevance of IORP I<sup>14</sup>. The first question is whether the Directive applies to the LGPS at all. I have been supplied with a copy of an opinion given to Unison by Mr Michael Furness QC (dated 24 May 2007), who took the view that IORP I did apply to the LGPS. I have also been supplied with a letter from the DCLG to the LGA dated 8 October 2013, which suggests that the government also considers IORP I to be

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<sup>14</sup> On 27 March 2014 the Commission published its proposal for a new IORP II Directive, which would codify (by recasting) and amend IORP I. In broad terms, IORP II would introduce new and strengthened governance requirements. The fundamental definition contained in article 6(a), discussed in detail below, would not be changed by the draft containing the proposal. It is striking that the deletion of the word “not” in the new draft article 5 seems to convert the position into one in which it would be for member states to opt into the application of some articles to statutory schemes, which might be seen as supporting (at least once IORP II comes into force) my preferred view below that such schemes do not, if purely statutory, fall within article 6(a). However, it remains to be seen whether and in what form the proposed Directive is ultimately adopted, and the contemplated implementation deadline is not until 31 December 2016. It is not therefore of immediate legal relevance. Having said that, I shall be pleased to address any specific queries that the LGA may have about its implications.

applicable to the LGPS: "Directive 2003/41 applies to all occupational pension schemes, both trust-based and statutory." I have not found the point easy, but I have ultimately been persuaded that that view is indeed correct, for reasons which I shall seek to explain.

26. Mr Furness concluded at paragraph 9 of his opinion that IORP I could only sensibly be applied to the LGPS on a fund by fund basis, a point with which I agree. He then noted that whether the Directive did apply therefore depended upon whether each such fund was "an institution for occupational retirement provision" as defined by article 6(a). At paragraph 10 of his opinion, he helpfully set out the five different components of the definition.

27. Taking the first four of those components in turn:

(i) I agree with Mr Furness that an LGPS fund is an "institution", essentially for the reasons that he gives;

(ii) I agree that it clearly operates on a funded basis;

(iii) I agree that it is established separately from any sponsoring undertaking, again for the reasons that Mr Furness gives (which match the analysis of the role of the administering authority set out earlier in this Opinion);

(iv) Plainly the LGPS is established for the purposes of providing retirement benefits.

28. However, I have greater difficulty with the fifth and final component of the definition, namely whether the LGPS fund is established in the context of an occupational activity "on the basis of an agreement or contract agreed individually or collectively between the employer(s) and the employee(s)



or their respective representatives<sup>15</sup>.” The problem is not with the context of an occupational activity, which evidently exists, but rather with the requirement that the fund be established on the basis of a collective agreement or contract between employers and employees.

29. Mr Furness says in a single sentence at the end of his paragraph 11 that this requirement is “clearly satisfied”, without elaborating further<sup>16</sup>. But for my part I have not found it so straightforward to see where the necessary collective agreement or contract is to be found. Individual contracts of employment may well in practice refer to the employee’s right to belong to the LGPS, but they need not do so, since that right is statutory and not contractual in nature (and remains so whether it is referred to in the contract of employment or not). Certainly the individual contract of employment is not the basis upon which the LGPS, or any particular LGPS fund, is established or upon which LGPS benefits are provided. Nor am I aware of any pertinent collective agreement. Rather, the LGPS and its individual funds are, as it seems to me, established on a purely statutory basis. A statute is not the same as a collective agreement or a contract.

30. On the other hand, article 5 of the Directive says that member states may choose not to apply articles 9 to 17 to institutions where occupational retirement provision “is made under statute, pursuant to legislation, and is guaranteed by a public authority”. If statutory schemes fall entirely outside the Directive in any event, then it is hard to see what purpose that option serves.

31. It is not easy to find a convincing reconciliation between article 5 and article 6(a). In the end, what has persuaded me to agree with Mr

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<sup>15</sup> The alternative limb concerned with self-employed persons can be ignored for present purposes.

<sup>16</sup> Although he may have regarded the point as flowing from what he had earlier said, in his paragraph 8, about article 5 of the Directive.

Furness's view is the explanatory memorandum, prepared by the Commission, which accompanied its original proposal for the Directive<sup>17</sup>. In the draft text which accompanied the proposal, the article 6(a) definition was in similar though not identical terms to its final wording.

32. Paragraph 1.3(c) of the explanatory memorandum, headed "Establishing a coherent scope", states very clearly that the Directive covers all IORPs which operate on a funded basis and are outside the social security systems, and says: "Briefly, any institution that receives contributions and invests them with the sole purpose of paying out retirement benefits is considered to be an IORP." Paragraph 1.1(a) also makes it clear that, in general, a pension scheme which is not a social security scheme or an individual scheme (i.e. a product taken out with a life assurance company) is an "occupational scheme", and that there is an IORP when, as is generally the case, an occupational scheme involves employer and employees paying into a savings scheme (either within the company itself or using a separate financial institution), out of which retirement benefits will be paid to those same employees. In the light of these statements as to the scheme and scope of the legislation, which clearly constitute a significant part of the backdrop to the passing of the Directive, it is very hard to contend that schemes which were purely statutory in origin were not intended to be covered, assuming that they did not amount to social security schemes within the meaning of Regulation 1408/71 (and I cannot see that the LGPS falls into that category). The first comment on article 6 in the explanatory memorandum says simply that the Directive "is intended to apply to employment-related institutions for pension provision that operate on a funded basis", and it refers to the notion of the IORP having been chosen because it is generic enough to cater for the diversity of institutions operating in the EU. The following comment on article 5 should also be noted:

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<sup>17</sup> I am indebted to Mr Ivan Walker, the solicitor advising Unison, for drawing attention to the relevance of this text.

“In some Member States, occupational retirement provision can be operated by institutions which are covered by a public authority with revenue raising powers. Such a cover is deemed to be sufficient for the protection of members and beneficiaries.”

33. The conclusion must, I think, be that, on a true reading, article 6(a) requires only that the occupational activity (and not the pension arrangements themselves) need be based upon a contract of employment or collective agreement. Although that is not the most natural reading of the text, the combined effect of the explanatory memorandum, and the fact that it makes sense of article 5, in the end persuades me that it must be correct.

34. I now turn to consider the effect of the Directive upon LGPS. As already noted, article 5 permits member states not to apply articles 9 to 17 of IORP I to cases where provision is made under statute and guaranteed by a public authority. Although there is no guarantee in the conventional domestic law sense in the case of the LGPS, I think (in common, as I understand it, with Mr Furness) that the obligations of the employing authorities are sufficient to engage this dispensation here. However, I have not been asked to advise on the question of whether the United Kingdom has effectively exercised its option, or on the implications for the LGPS if articles 9 to 17 are applicable. The two articles about which I have been asked to advise are article 8 and article 18, neither of which is capable of being disapplied under article 5.

35. Article 8 requires member states:

“to ensure that there is a legal separation between a sponsoring undertaking and an institution for occupational retirement provision in order that the assets of the institution are safeguarded in the interests of members and beneficiaries in the event of bankruptcy of the sponsoring undertaking.”

36. Clearly, an LGPS fund does not itself have legal personality. Its assets belong to the administering authority, and that authority will also (normally) be a sponsoring undertaking, i.e. an employing authority. However, having regard to the stated purpose of article 8, this should not be seen as objectionable in itself. It should in my view be sufficient compliance with article 8 if there is some legal bar to the assets of the pension institution (i.e. the fund assets) being taken by the employer's other creditors. This is also the view taken in the helpful commentary on IORP I prepared for the European Federation for Retirement Provision by Mr Simon Arnot of Steptoe & Johnson LLP, where he speaks of the concept of a "privileged category of asset".

37. It has been pointed out to me that in some places the Directive refers specifically to ring-fencing as a concept, which on a purely linguistic approach might be thought to suggest that, where the term "separation" is used, something more is required. But what is required by article 8 is "legal separation", which does not necessarily mean complete separation for all purposes, as opposed to a separation of a particular kind which the law will recognise. The meaning must ultimately depend upon the context, and to my mind the key point here is that article 8 itself specifically identifies the purpose for which the separation is required, i.e. that the relevant assets should be safeguarded if the sponsoring undertaking becomes insolvent. That purpose is fulfilled if one takes the approach suggested in paragraph 36 above. Again, I acknowledge that recital 8 to the Directive refers to institutions which are "completely separated" from any sponsoring undertaking, but I regard that as a shorthand for the effect that the Directive's specific provisions have, and in any event not as a point which is sufficient to outweigh the strong indication to be found in article 8 itself.

38. Another point that has been raised is that the absence of separate legal personality as between an authority in its capacity as administering

authority, and that authority in its capacity as employer and more generally, is that the administering authority might not be able to sue itself for unpaid contributions. However, I am not persuaded that this is so significant an issue as to drive a different interpretation of article 8. Even if it is correct to say that the authority acting in one capacity could not sue itself in some other capacity (and I do not think this is by any means beyond argument), and even if one disregards the scope which might exist to develop the law concerning derivative actions so as to address such a situation, it seems to me clear that in such a situation an interested party such as a scheme member would be able to seek judicial review to compel the authority to pay its contributions or fulfil its other obligations as employer.

39. If a bar or privileged category of assets, as described in paragraph 36 above, is sufficient to satisfy article 8, then in my view it exists here, even though an LGPS fund is not held by the administering authority on trust as such. It would be surprising, given the whole nature of the fund as already discussed above, if its assets were generally available to the creditors of the administering authority, and in my opinion such a result is avoided by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093 as amended - "the Investment Regulations"). In particular, r.4(1) of the Investment Regulations governs the sums that the administering authority may pay from the fund. For this purpose, it specifies only the administrative costs identified in r.4(5), although it is obviously also permissible to make the payments of benefits themselves, as required by the 2013 Regulations (and see r.5 on permissible borrowing). Unsurprisingly, the administering authority is not permitted to make payments from the fund to its creditors generally. It must follow that the creditors themselves cannot enforce against the fund assets<sup>18</sup>. I would certainly agree that it would be preferable if the legislation stated this explicitly. Nonetheless, I do not

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<sup>18</sup> See also r.6(3) preventing the exercise of rights of set-off in respect of bank accounts.

think there is much doubt about the point: and if there otherwise was, then it would be necessary (on familiar *Marleasing* principles) to interpret the relevant provisions so as to achieve the result required by article 8 of IORP I, assuming that it does indeed apply.

40. I have been asked to comment upon how my view about the privileged status of the fund assets sits with two particular statutory provisions, namely ss 13(3) and 17(1)(b) of the Local Government Act 2003. As to s 13(3), the query raised is whether income of the fund would not count as a "revenue" of the administering authority, so that all that authority's borrowing (in whatever capacity) would be charged upon it (see paragraphs 23-24 above), as well as on all the authority's other revenues. It is indeed my view that such income would fall outside s 13(3), because it would not be treated as a revenue "of" the authority in view of the specific purpose for which it is required to be applied. Again, a *Marleasing* approach would resolve any doubt that might otherwise exist. As for s 17(1)(b), that merely provides that any temporary use by a local authority of money forming part of an external fund is to be treated as borrowing by the authority for the purposes of the capital finance regime in the 2003 Act. Although the LGPS fund is one kind of external fund, amongst others, this provision does not create or imply the existence of any power in the administering authority to make use of it for non-LGPS purposes<sup>19</sup>. It simply regulates one aspect of the consequences in a case in which such use is permissible and occurs.

41. I have referred in paragraph 17 above to the fact that there does exist one case, South Yorkshire, in which the administering authority is not an employing authority and has no other functions than the administration of its LGPS fund. It may be useful to record for completeness that no

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<sup>19</sup> The position might well have been different before 1 April 2010, because the use of fund money for any purpose for which the administering authority could borrow money then counted as an investment: see rr. 3(4) and 16 of the Investment Regulations. The absence of any provision similar to r.16 in relation to post-April 2010 use of fund monies reinforces the view that I have expressed.

possible issue about compliance with article 8 could arise if that model was adopted for the LGPS generally.

42. Turning to article 18, which I have been asked to address since the initial consultation, this is headed "Investment rules" and contains a number of different provisions about the requirements which member states must or must not impose upon institutions located in their territories. These may be summarised as follows:

- (i) There must be a requirement to invest in accordance with the "prudent person" rule, and in particular in accordance with the six rules set out in sub-paragraphs (a) to (f) of article 18(1);
- (ii) The institution may not borrow (other than temporarily, for liquidity purposes) or act as a guarantor on behalf of third parties – article 18(2);
- (iii) Article 18(3) provides that member states "shall not require institutions . . . to invest in particular categories of assets";
- (iv) Investment decisions must not be made subject to prior approval (sc. by other state authorities) or systematic notification requirements – article 18(4);
- (v) Articles 18(5) and (6) permit member states to lay down detailed investment rules, including quantitative rules, for institutions generally or particular institutions, which are prudentially justified, subject to certain specific restrictions on what prohibitions may be imposed;
- (vi) Article 18(7) is concerned with cross-border activity, i.e. where the institution is located in one state and the sponsoring undertaking in another. I should not have thought that this was any of real

relevance to LGPS<sup>20</sup>, so I shall leave it aside unless asked to consider it further.

43. I am not aware of any requirements which might be said to infringe article 18(3) or article 18(4). So far as article 18(2) is concerned, r.5 of the Investment Regulations appears to meet the requirement for a restriction on borrowing. There is no specific prohibition on the giving of guarantees<sup>21</sup>, but if my views about the permissible use of fund monies as set out above are correct, it is hard to imagine in what circumstances a guarantee that could be called against fund monies could lawfully be given.

44. So far as article 18(1) is concerned, sub-paragraphs (c), (d) and (f) are concerned with particular types of investment, and may conveniently be considered in conjunction with article 18(5). The opening words of article 18(1) call for prudent investment, and sub-paragraphs (a), (b) and (e) call for: investment in the best interests of members and beneficiaries (and in their sole interest if there is a potential conflict of interest with the manager of the portfolio); investment in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole; the investment of assets to cover the technical provisions (i.e. the financial commitments of the scheme as explained in article 15) in a manner appropriate to the nature and duration of the expected future retirement benefits; and proper diversification and the avoidance of excessive risk concentration.

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<sup>20</sup> Some LGPS funds may have non-UK sponsoring undertakings, for example as a result of admission agreements with non-UK companies, but it would not appear that the sort of restrictions contemplated by article 18(7) are in play here (they would really be relevant if UK employment law sought to impose restrictions on the investment of pension schemes located elsewhere to which UK employees might belong). I have not been asked to advise about article 20, which deals with cross-border activities (and which is addressed in domestic law by Part 7 of the Pensions Act 2004).

<sup>21</sup> Cf. r.5 of the Occupational Pension Schemes (Investment) Regulations 2005, discussed below, which does impose such a prohibition expressly in relation to trust schemes.



45. There is, so far as I can see, no legislative provision relating specifically to the LGPS which imposes these requirements, although it is apparent that there a variety of requirements (e.g. for the publication of a statement of investment principles) which will tend to assist in their achievement. There is r.11(2) of the Investment Regulations, which deals with diversification and suitability of investments, but this falls some way short of the full range of article 18(1) requirements.
46. So far as pension schemes more generally are concerned, the requirements of article 18 are addressed by the Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005 No 3378), in particular by r.4. But that provision applies to the trustees of a trust scheme as defined by s 124(1) of the Pensions Act 1995, and the LGPS is not such a scheme.
47. In my view the fiduciary duty and public law duties of the administering authority, as discussed in my Opinion of 25 March 2014, would in fact (and with one possible exception) impose upon it all the obligations that article 18(1) requires. If that is right, does it matter that there is no express legislative implementation of article 18(1) in relation to the LGPS? The position concerning implementation requirements has recently been summarised by the CJEU in C-530/11 *Commission v UK* (13 February 2014) at paragraphs 33-36. Enactment in express and specific provisions is not necessarily required – a “general legal context” may be sufficient if it ensures full application of the directive in a sufficiently clear and precise manner. Individuals for whom the directive is designed to create rights must be put in a position to know the full extent of their rights and to rely on them before national courts. My view is that the existence of the general duties to which I have referred probably would suffice to meet this test, but there is room for argument about that, and I should have thought that it would clearly be preferable if the relevant provisions of the

Occupational Pension Schemes (Investment) Regulations 2005 were made to apply to the LGPS.

48. The possible exception to which I have referred is the requirement that investment decisions are to be made in the sole interest of members and beneficiaries in the case of a potential conflict of interest. In the opinion which I have already mentioned, Mr Furness took the view that there was such a potential conflict between the interests of the administering authority in its capacity as employer, and the interests of the members. He identified the issues which might typically arise as being those concerning the employer's potential desire to adopt a more aggressive than prudent investment policy in order to minimise contributions, and those concerning possible investment in the employer. He also took the view that merely imposing a legislative requirement to act in the sole interests of members and beneficiaries would not be enough, and that compliance with the Directive required administration to be put into the hands of a body which was distinct from any LGPS employer.

49. I do not agree with the second stage of this analysis. The nature of the member state's obligation under article 18(1) is to impose a requirement on the institution. If the state does precisely that, I do not see how it can be said that the Directive requires it to go further. Of course it is a general principle of EU law that rights and remedies must be ones which are effective, but I do not see why an enforceable legal duty to act in a particular way should not be effective. Mr Furness's approach reads article 18(1) as if it imposed a duty to prevent any potential conflict of interest even arising, which is not what it says. The fact that UK pensions legislation has gone further in relation to private sector schemes does not seem to me to point to a different conclusion. One can well see as a matter of policy why a different approach might be taken in that context, than where the employer is a public body, subject to a variety of transparency requirements, and where (not least because of its tax-raising

powers, and because employer-related investment is not really a serious issue) the potential for conflict is in any event substantially less – although I would be disposed to agree that there is still some limited potential for conflict present.

50. Is this potential conflict sufficiently addressed, despite the absence of an express legislative requirement equivalent to r.4(2)(b) of the Occupational Pension Schemes (Investment) Regulations 2005, by the fiduciary and public law duties that are in play? I am not sure that it is, even if (as I think on balance is the case – see paragraph 47 above) such duties are in principle capable of amounting to sufficient implementation of the Directive. I say that because I should have thought, as set out in my previous Opinion, that the administering authority's fiduciary duty was owed both to employers and to members and beneficiaries, and would require it to strike a balance between their interests, whereas article 18(1)(a) requires that in a situation of potential conflict with the interests of the decision-maker, the interests of the members and beneficiaries should be the sole consideration. To this limited extent, I think that the present state of the law does not comply with article 18(1)(a).

51. Turning now to the choice of investments and the requirements of articles 18(1)(c), (d) and (f) and 18(5), these need to be set against Schedule 1 to the Investment Regulations<sup>22</sup>. I am not a financial services specialist, and I have not been provided with any further instructions or information to assist me in comparing the different types of investment referred to in article 18 on the one hand, and Schedule 1 on the other. However, there is certainly no express requirement to invest predominantly on regulated markets as contemplated by article 18(1)(c), and I do not think that the combined effect of the Schedule 1 provisions has that effect. Further, since the Schedule 1 restrictions are quantitative in nature, and do not constitute an exhaustive list of possible investments, they do not impose

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<sup>22</sup> Again, r.4 of the Occupational Pension Schemes (Investment) Regulations 2005 would be relevant in the case of a trust scheme, but not here.

the rules in relation to investment in derivatives that are contemplated by article 18(1)(d). Article 18(1)(f) concerns investment in the sponsoring undertaking. This is, I assume, of less practical significance in relation to the LGPS, and as I understand it the LGPS as an occupational pension scheme is subject to the restrictions on employer-related investments contained in s 40 of the Pensions Act 1995 and in rr. 11 to 13 of Occupational Pension Schemes (Investment) Regulations 2005 – these restrictions are not confined to trust schemes. Further, I do not understand anything in Schedule 1 to be inconsistent with the type and volume of investment that article 18(5) requires to be permitted.

52. So it appears to me that the existing state of the law does not properly implement IORP articles 18(1)(c) and (d) in relation to the LGPS, and nor do I think general fiduciary duty or public law principles fill this gap, although in reality I should be somewhat surprised to find that any LGPS funds were acting inconsistently with them. There is room for debate as to whether articles 18(1)(c) and (d) are sufficiently precise to be directly effective, but any administering authority should certainly, in my view, seek to observe them – there is a general duty to observe EU law requirements, whether directly effective or not (albeit that the absence of direct effect might impact on what remedy was available for a failure to do so).

53. Finally, I have been asked what form any challenge concerning the compatibility of the LGPS with IORP I might take. If the issue was whether the legislation governing LGPS in fact complied with article 8 (my own view, as set out above, being that it does), it seems to me that would have to be raised in a claim for judicial review against the Secretary of State<sup>23</sup> as the author of the relevant legislation. I do not see what any administering authority could do to remedy any deficiency in the legislation, if such a deficiency existed. The same would be true if,

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<sup>23</sup> Or conceivably the Attorney General, as representing central government more generally.

contrary to my view, article 18(1)(a) required administration by a body which was not a scheme employer.

54. The position in relation to some other provisions of the Directive might be different: if a particular provision was of a kind intended to confer rights upon individuals, and was sufficiently clear, precise and unconditional to pass the test for having direct effect, then it might be possible for a claim to be made directly against an administering authority to require compliance with that provision, regardless of what the domestic legislation said. Any such issue would have to be addressed on a case by case basis, depending upon the nature of the alleged non-compliance. I have already indicated that in my view an administering authority is obliged to comply with the IORP article 18 investment rules, whether or not they are directly effective.

## CONCLUSIONS

55. In reality it is extremely unlikely that a situation would be allowed to develop in which an LGPS fund could not meet benefits as they fell due, or in which a local authority was unable to pay its debts (including LGPS contributions) as they fell due, without some form of prior central government intervention – although what form that intervention might take is largely a political rather than a legal question. Further, contributions should continue to be payable so as to meet benefits for as long as there is any employing authority with active members.

56. However, in my view the strict position in law is that:

- (i) An LGPS administering authority is only obliged to pay benefits to the extent that the assets of the fund permit. Neither it, nor central government, acts as ultimate guarantor of those benefits;

(ii) If an employing authority was unable to pay its creditors, unpaid contributions to the LGPS would have no preferential status. A local authority cannot be subject to formal insolvency procedures.

57. If an employing authority fails to pay contributions, the administering authority can (and if necessary, should) sue for them as a statutory debt. It also can, and normally should, charge interest on late contributions. There may also be some legal constraints on how far a local authority could refuse to raise council tax (or how far the Secretary of State could prevent it from doing so) if there were no other means of paying LGPS contributions.

58. On balance, I consider that IORP I applies to the LGPS. If it does, then in my view the current system complies with article 8 of the Directive, because it would not be possible for fund assets to be used to meet any liabilities incurred by the administering authority in any other capacity. There are some respects in which I do not think that the current state of the law complies with article 18: in particular, article 18(1)(a) to the limited extent set out in paragraph 50 above; article 18(1)(c); and article 18(1)(d). It would in any event be preferable for legislation transposing the requirements of article 18 to be made expressly applicable to the LGPS. Administering authorities should in any event seek to act in a manner consistent with article 18.

59. I shall be pleased to give my Instructing Solicitor any further advice which may be required.

NIGEL GIFFIN QC

11KBW

13 September 2014

11 King's Bench Walk  
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IN THE MATTER OF  
THE LOCAL GOVERNMENT  
ASSOCIATION

AND IN THE MATTER OF THE  
FINANCING AND REGULATION OF  
THE LOCAL GOVERNMENT PENSION  
SCHEME

OPINION

Thelma Stober  
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# Pensions Committee

18 March 2015

<b>Report title</b>	Assurance Framework supporting the Annual Governance Statement March 2015	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Rachel Howe	Head of Governance
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<b>Report has been considered by</b>	Geik Drever	Strategic Director of Pensions
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## Recommendations for noting:

The Committee is asked to note:

1. The updated assurance framework.

## **1.0 Background**

- 1.1 The Assurance Framework is designed to give assurance to the Fund's stakeholders that the administration of the Fund is conducted in accordance with accepted working practices and in a satisfactory manner, able to meet its objectives, while maintaining good customer service.
- 1.2 It is reviewed annually to ensure there have been no adverse matters arising in the work of the Fund.

## **2.0 The Assurance Framework**

- 2.1 The Framework has been revised in accordance with the Fund's 2015 – 2020 Service Plan to ensure the Fund is in a good position to meet the objectives set.
- 2.2 It has updated those risks identified as key risks for the Fund over the next 12 months together with updates on the compliance monitoring program.

## **3.0 Financial implications**

- 3.1 This report contains no financial implications

## **4.0 Legal implications**

- 4.1 This report contains no legal implications

## **5.0 Equalities implications**

- 5.1 This report has no implications

## **6.0 Environmental implications**

- 6.1 None identified

## **7.0 Human resources implications**

- 7.1 None identified

## **8.0 Corporate landlord implications**

- 9.1 None identified

## **10.0 Schedule of background papers**

- 10.1 There are no preceding background papers.



# Assurance Framework Supporting the Annual Governance Statement

March 2015

# Assurance Framework

## Supporting the Annual Governance Statement

March 2015

### 1. Background

- 1.1 The annual report and accounts contains the City Council's annual governance statement as required by the accounting standards that apply to local government. The application to the West Midlands Pension Fund is limited, as the statement covers all of the Council's activities. The Strategic Director and senior pension services staff do make declarations in support of the statement and these are based upon a detailed bespoke 'assurance framework' that has been developed for the Fund. It is designed to give assurance to the Committee and interested parties that the administration of the Fund is operating in a satisfactory manner. This report is to highlight, for the Committee, the assurance framework and matters that have been managed during the last 12 months.
- 1.2 This report was prepared and agreed by Geik Drever, Strategic Director of Pensions.

### 2. Assurance Framework

- 2.1 The assurance framework is to ensure the Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices, where appropriate, and has high customer service satisfaction. The framework in diagrammatic form is pictured on page 9.
- 2.2 There have been no adverse matters arising from the work behind the assurance framework. The following matters are highlighted as indications of the activities within the framework and the outcomes:

#### 2.2.1 External Audit

The Fund is subject to audit by PWC. The 2014 audit produced no material issues for management or any matters to draw to members' attention.

#### 2.2.2 Risk Management

An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to annual review and quarterly monitoring. It is available to internal and external audit.

The risks to the Fund's core objectives have been identified. The core objectives are:

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

## Assurance Framework Supporting the Annual Governance Statement March 2015

There are currently 41 risks which have been identified, with ten classified as the 'top risks' for the Fund. None has a critical rating. The highest-noted risks are the following:

### Administration

- **The pension administration strategy (PAS) is not complied with by employers**  
The risk is that employers are not aware of their responsibilities under the PAS. In order to mitigate this risk the Fund communicates with employers to ensure they understand the PAS and the requirements within. Each employer is asked to sign an undertaking of their understanding and acceptance.
- **Lack of employer covenant strength and/or suitable guarantors**  
All new employers are required to have a suitable guarantee in place prior to being admitted into the scheme. Monitoring is carried out on existing employers, the covenant strength is assessed and each employer risk rated. Higher-risk employers are monitored closely.

### Governance

- **The Fund breaches information governance and data protection law/regulations**  
The Fund is due to be registered as a data controller from 1 April. Breaches could lead to reputational damage and possible enforcement action from regulators, such as penalty notices. The Fund provides staff training and all breaches are reported and any systemic issues are identified and corrected.
- **The Fund cannot continue to operate and deliver its priority services following a disaster or data loss scenario**  
No experience of service failure; however, the Fund's business continuity plan is largely dependent on the IT infrastructure of Wolverhampton City Council. To mitigate any risk, the Fund is currently in discussion with the Council to ensure the Fund is adequately covered within the Council's own recovery plan.

### Investments

- **The Fund invests in an inappropriate asset allocation**  
The risk that trustees and officers do not receive appropriate advice or do not have suitable skills to make decisions is mitigated by the Fund providing training and formal qualifications for trustees and officers. Annual reviews are also undertaken by the Fund's investment advisor and investments are diversified by asset classes to spread risk.
- **Poor performance of investment managers**  
Due diligence is carried out on all managers prior to agreeing to invest. Any investment is approved by the Strategic Director of Pensions and Assistant Director – Investments. Manager performance is reviewed at monthly Investment Management Team meetings and annually by the Fund's Investment Advisor.

**2.2.3 Compliance Monitoring** - Regular reports submitted to Pensions Committee quarterly. No issues arose in last 12 months.

**2.2.4 Statutory Policies** - operating practices etc. Significant statutory policies and Fund policy statements have been reviewed and submitted to the April 2014 Pensions Committee.

**2.2.5 Customer Service Excellence and Investors in People** - The Fund remains committed to CSE through the enhancement of processes and procedures, and to investing in its staff.

**2.2.6 Staff Management** - A detailed staff appraisal framework has been developed and rolled out across the pension service. It assists in ensuring that the Fund maintains competent, skilled and experienced staff to deliver the objectives agreed in the Fund's *Business Plan 2015-2020* and meets future legislative changes.

**2.2.7 Key Priorities and Activities** - Key Fund priorities and activities identified in *Medium-Term Business Plan 2011-2015* have been achieved with work ongoing in respect of emerging priorities and activities forming the *Service Plan 2015-2020* (summary report attached).

### **3. Annual Governance Statement**

**3.1** The assurance framework enabled the following statement to be given in support of the Council's overall annual governance statement:

With regard to the Fund's day-to-day management, this is carried out by teams of staff who are dedicated solely to the functions of pensions administration and pensions investment. Appropriate support and advice is provided by external investment managers and advisors. All teams report to a dedicated Strategic Director of Pensions.

The key elements of the Fund's internal control environment include:

- procedures for establishing and monitoring the achievement of the Fund's objectives;
- the facilitation of policy making and decision making;
- ensuring compliance with established policies, procedures, laws and regulations;
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Fund are exercised;
- the financial management of the Fund and the reporting of financial management; and
- the performance management of the Fund and the reporting of performance management.

### **4. Recommendations**

**4.1** Members are requested to note the background to the assurance framework and updated operational practices.

**Assurance Framework**  
**Supporting the Annual Governance Statement**  
 March 2015

**Priorities – Implementation Targets**

Activity	Benchmark Measurement	Target	Frequency
<b>Quality procedures and practices</b>			
<b>a) Maintain quality accreditations</b>	Investors in People (IIP), Investors in Excellence (IIE), Customer Service Excellence (CSE) and shortlisting in industry awards	Reaccreditation/shortlisting for awards	Annual, as available
<b>b) Respond to best practice</b>	Through updates to SMT	Improvements to be identified and reported on regularly	Quarterly
<b>c) Respond to legislative changes</b>	Legislative requirement	Compliance with legislation	Quarterly
<b>d) Data quality</b>	Performance against key performance indicators	Data is accurate and updated on a timely basis	Continuous, with quarterly reports

Activity	Benchmark Measurement	Target	Frequency
<b>Drive progress through performance improvement</b>			
<b>a) Improve data quality standards to meet regulatory requirements</b>	Review of performance against specific targets set by the regulator in respect of completeness and accuracy of data  Outcome of reviews by the regulator and internal audit	Achieve targets set by the regulator  Positive reports by review bodies	Ongoing/annual  Ongoing/annual
<b>b) Develop cross-cutting key performance indicators focused on service priorities</b>	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

**Assurance Framework**  
**Supporting the Annual Governance Statement**  
 March 2015

**Priorities – Implementation Targets**

Activity	Benchmark Measurement	Target	Frequency
<b>Develop and implement customer engagement initiatives</b>			
<b>a) Develop, review and consult upon and implement engagement strategies</b>	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and quarterly reporting
<b>b) Hold AGM and mid-year reviews annually for employers</b>	Events held in summer and winter each year and are favourably received	Two events per year with 90% of respondents to feedback stating event was either good or excellent	Report to SMT following event
<b>c) Develop communications with stakeholders' needs in mind</b>	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and quarterly reporting
<b>d) Implement and review customer journey mapping (CJM) programme</b>	CJM programme to be implemented with project plan targeting customer segmentation	Processes reviewed by customers on a quarterly basis	Quarterly

Activity	Benchmark Measurement	Target	Frequency
<b>Management of risk strategies</b>			
<b>a) Regular risk management reviews</b>	Annual risk review	To have an action plan for the most significant risks	Annual/quarterly monitoring
<b>b) Review of major changes and new activities of business</b>	Review/approval from Pensions Committee	All Fund risks are adequately managed	Ongoing/quarterly reviews of risk register
<b>c) Develop and maintain risk management approach in order to give annual assurance statement</b>	Review/approval from Pensions Committee	All Fund risks are adequately managed	Annual review
<b>d) Develop and implement business continuity planning</b>	Review/approval from SMT	Full test of business continuity plan to be completed by Q2 2015	Annual review



**Assurance Framework**  
**Supporting the Annual Governance Statement**  
 March 2015

**Priorities – Implementation Targets**

Activity	Benchmark Measurement	Target	Frequency
<b>Review and implement investment strategy</b>			
<b>a) Review of investment strategy</b>	Annual asset allocation review/ Statement of Investment Principles	Ensure investment strategy has regard to Fund's funding position and liabilities	Annual, with quarterly monitoring
<b>b) Implementation of investment strategy</b>	Review/approval by Investment Advisory Sub-Committee	Ensure changes carried out within agreed timescales and cost-effectively	Quarterly
<b>c) Monitoring of performance and portfolio changes</b>	Reporting to Investment Advisory Sub-Committee	Ensure performance at least matches agreed benchmarks	Quarterly
<b>d) Voting and implementation of ESG policies</b>	Reporting to Pensions Committee and Investment Advisory Sub-Committee/SRI Statement	Comprehensive voting programme and membership of LAPFF and other ESG initiatives	Quarterly

Activity	Benchmark Measurement	Target	Frequency
<b>Triennial actuarial valuation</b>			
<b>a) Engage with employing bodies and discuss issues</b>	Consultation programme extended to all participating employers	Meet agreed timetable	Next actuarial valuation 2016
<b>b) Collect data for valuation</b>	Formal valuation project plan	Meet agreed timetable	Annually
<b>c) Communicate individual results</b>	Actuarial contributions certified as per regulatory requirements	Meet agreed timetable	Next actuarial valuation 2016
<b>d) FSS to be updated accordingly to include the Fund's strategy for deficit repair</b>	Regulatory requirements	Comprehensive and up-to-date	Next actuarial valuation 2016
<b>e) Ongoing review of investment strategy to maintain SIP</b>	Regulatory requirements	Comprehensive and up-to-date	Annual
<b>f) Regular employer covenant review</b>	All employer covenants reviewed and necessary actions taken	Risk-based employer covenants	Annual

**Assurance Framework**  
**Supporting the Annual Governance Statement**  
 March 2015

**Priorities – Implementation Targets**

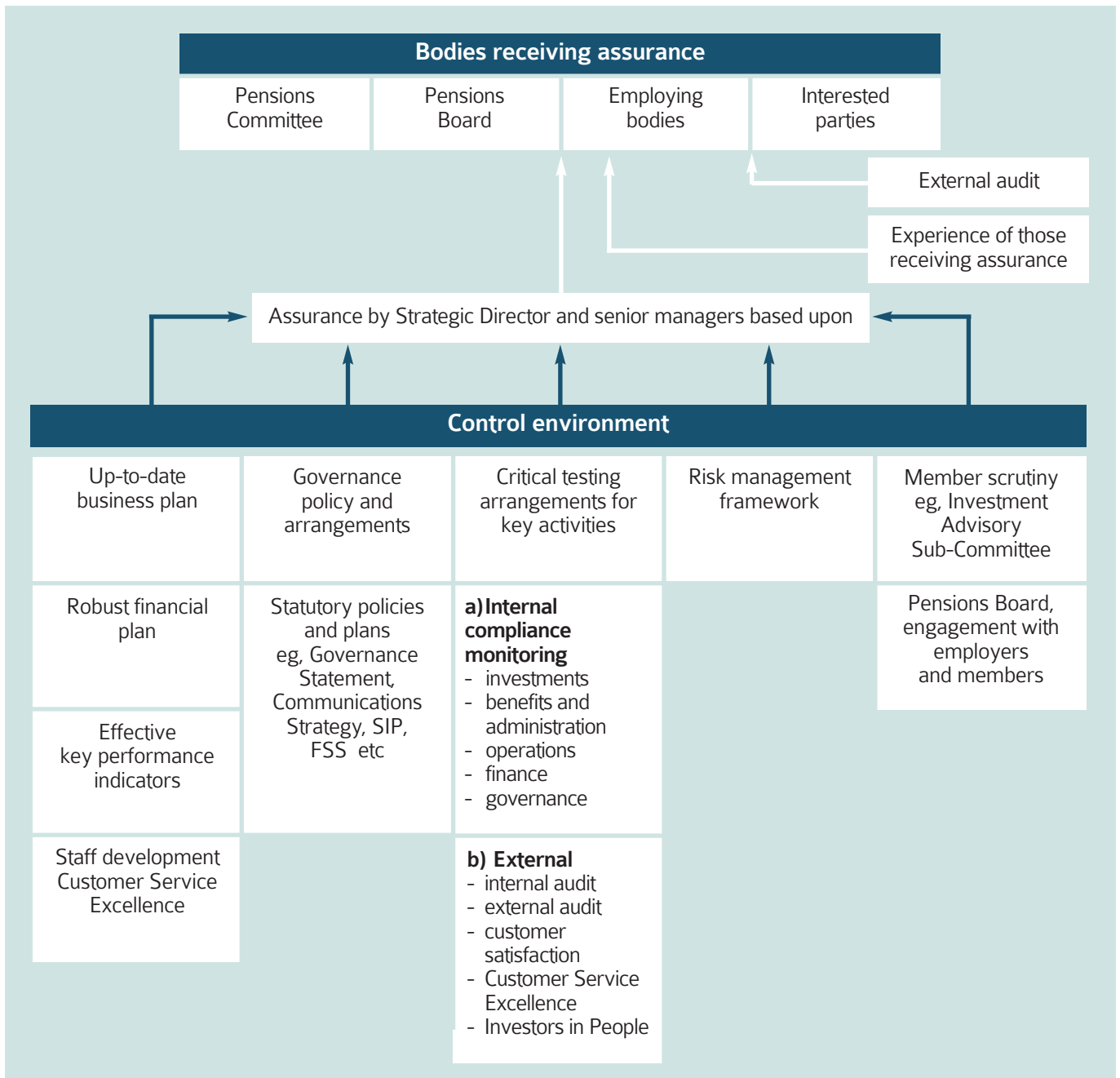
Activity	Benchmark Measurement	Target	Frequency
<b>Trustee and Pensions Board training</b>			
a) <b>Maintain and expand the opportunities to build trustee and Pensions Board knowledge and understanding</b>	CIPFA Skills and Knowledge Framework and the legislative requirements concerning the knowledge of Pensions Board members. Wide range of knowledge-building opportunities provided. Intensive off-site training when required	Minimum of three days' provision to Committee members	Ongoing, with annual report
b) <b>Monitoring of approved training policy</b>	Wide range of knowledge-building opportunities provided	100% target achieved	Ongoing
c) <b>Identification of training needs and development of training plan</b>	Wide range of knowledge-building opportunities provided	Training needs identified and addressed	Ongoing
d) <b>To ensure trustees and Pensions Board meet TPR competency requirements</b>	TPR framework and standards and training needs analysis	Compliance with CIPFA Knowledge and Skills requirements	Ongoing

Activity	Benchmark Measurement	Target	Frequency
<b>Developing people</b>			
a) <b>Ensure a skilled, flexible and professional workforce</b>	Staff induction, training plan and appraisal	25 hours' training per annum and appraisals for all staff	Ongoing
b) <b>Measure and improve competency levels through performance appraisals</b>	Annual appraisal	All staff to have up-to-date appraisals	Annual appraisal, with six-month review
c) <b>Learning and development guide developed and reviewed with due attention to training needs analysis and performance appraisals</b>	Training needs addressed with development plan created	Training needs analysis to be reviewed annually	Annual
d) <b>Cultivate a working environment where knowledge is shared</b>	Knowledge library of all courses available on SharePoint	100% of internal courses made available via SharePoint	Ongoing
e) <b>Maintain accreditations including Investors in People (IIP) and Customer Service Excellence (CSE)</b>	Investors in People, Customer Service Excellence	Reaccreditation	Annual

# Assurance Framework Supporting the Annual Governance Statement March 2015

**Assurance:** 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.

**Objectives:** The bodies receiving assurance can be satisfied it is soundly based, is comprehensively updated and meets high professional standards.



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# Pensions Committee

## 18 March 2015

**Report Title** Responsible Investment Activities  
October to December 2014

**Originating service** Pension Services

**Accountable employee** Leanne Clements Responsible Investment Officer  
Tel 01902 55(2086)  
Email [Leanne.Clements@wolverhampton.gov.uk](mailto:Leanne.Clements@wolverhampton.gov.uk)

**Report has been considered by** Geik Drever Strategic Director of Pensions  
Tel 01902 55(2020)  
Email [Geik.drever@wolverhampton.gov.uk](mailto:Geik.drever@wolverhampton.gov.uk)

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### Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 31 December 2014, including Appendix 1.
2. The positive engagement outcome from the BP and Royal Dutch Shell shareholder resolution submissions.
3. 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>
4. Updates on the Fund's response to the cluster munition and Israeli-Palestinian campaigns and the National Express shareholder resolution/engagement respectively.
5. The Fund's collaborative engagement work with other pension funds regarding fund manager monitoring, culminating in the recently launched *Guide to Responsible Investment Reporting in Public Equity*, January 2015 (Appendix 2).

## 1.0 Purpose

- 1.1 To inform the Pensions Committee of the work undertaken by the Investment team regarding their responsible investment activities between the period 1 October to 31 December 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

### *Summary of Voting Activity*

- 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 296 company meetings –54 UK, 44 European, 57 North American, 4 Japanese, 82 Australia/New Zealand, 48 Asia (excluding Japan), 6 South American and 1 Russian. In respect of these meetings (a mixture of EGMs and AGMs) the Fund opposed, abstained or withheld\* 932 resolutions out of a total of 2388, representing approximately 39% of all resolutions. During this period there were 43 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”.

### *BP and Shell Shareholder Resolutions on Carbon Management*

- 3.3 As indicated at the last Pensions Committee meeting, LAPFF were seeking member funds to co-file on 2015 annual general meeting shareholders resolutions at BP and Royal Dutch Shell respectively with regards to their carbon management practices. The Fund decided to co-file these shareholder resolutions with other like-minded LAPFF members as it believed that it was in alignment with its investment beliefs and responsible investment policy. The co-filing procedure was completed through the Fund's custodian in December 2014.

3.4 In an unprecedented move, BP and Royal Dutch Shell both publicly stated in January 2015 that they will recommend that their respective shareholders **support** the resolution. This represents a very positive engagement outcome for the Fund. The Fund will continue to monitor developments and support the engagement efforts of the LAPFF with regards to this issue as and when needed.

#### 4.0 Engagement through Partnerships

##### *Local Authority Pension Fund Forum*

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 With respect to the LAPFF-directed cluster munitions engagement, there is no recommended further course of action. As agreed at the previous Pensions Committee meeting, the Fund has decided to not adopt ethical exclusions as a matter of principle, and instead will continue to adopt its engagement policy accordingly.

4.3 A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1. The issues discussed by the LAPFF in the Quarterly Engagement Report is available on their website: <http://www.lapfforum.org/Publications/engagement>. Note that a summary of cluster munitions engagement is provided in the LAPFF engagement report (page 4).

4.4 At the December Pensions Committee meeting, there was also a discussion regarding National Express's North American operations and a proposed way forward, including the co-filing of a shareholder resolution for their upcoming 2015 AGM. Based on further research resulting from that discussion, the Fund decided that the following course of action was deemed appropriate which was approved by the Pensions Committee:

- Support the shareholder resolution at the upcoming 2015 AGM, in alignment with our voting policy;
- Attend the 2015 AGM to vocally register our discontent at the Board; and,
- Encourage other like-minded investors - including major shareholders - to support the resolution in the coming months.

### *Israeli-Palestinian Campaign*

- 4.5 In August 2014, a request was made by a member in Coventry asking for disinvestment in all arms manufacturing companies and also in any companies that profit from the violations by Israel of international laws in Palestine. Councillor Turner and certain members of the Pensions Committee have since received identical letters from a number of members with regards to this campaign, to which the Fund has responded on his behalf highlighting our policy on ethical exclusions.
- 4.6 While the Pensions Committee has decided to retain its policy of not excluding companies for ethical reasons as noted above, a decision was made to retain the Fund's proxy voting advisor PIRC to conduct some additional research and engagement into this issue. The Fund will report back to the Pensions Committee as to the findings of the program as and when appropriate.

### *External fund manager monitoring*

- 4.7 One key aspect of the Fund's responsible investment strategy is to hold external fund managers to account for their responsible investment approach. In support of this objective, the Fund and other large LGPS schemes<sup>1</sup> are amongst a group of UK pension funds with over £200bn of assets who have worked together to produce a *Guide on Responsible Investment Reporting in Public Equity*. Leanne Clements, the Fund's Responsible Investment Officer, was a Deputy Editor of the Guide.
- 4.8 Launched in January 2015, the Guide aims to clearly outline their expectations as to the future direction of reporting for listed equities to provide managers with a clearer picture of what they want to read and hear about when it comes to environmental, social and governance (ESG) integration, effective stewardship (voting and engagement activities) and most importantly, getting a better understanding of how these are contributing to improved long-term risk adjusted returns.
- 4.9 The Guide will be used as a platform for future discussions with external fund managers of listed equity. It has received a favourable response from the fund management community and the Fund itself has received some positive press after the launch. In general, fund managers welcomed the clarity the Guide provides and its progressiveness; asking them to focus their responsible investment reporting on how ESG is financially relevant to investment. The Fund will provide a short presentation on the Guide's contents at the next LAPFF Business Meeting in March.
- 4.10 A copy of the Guide is provided in Appendix 2.

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<sup>1</sup> Strathclyde Pension Fund, Lothian Pension Fund, Environment Agency Pension Fund, NILGOSC, Merseyside Pension Fund



## **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

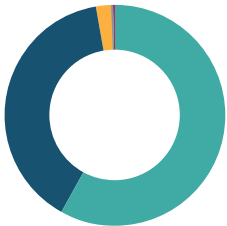
- Appendix 1 (Voting and Engagement Activity)
- LAPFF Quarterly Engagement Report October to December 2014:  
<http://www.lapfforum.org/Publications/engagement>
- Appendix 2 (Guide to Responsible Investment Reporting in Public Equity, January 2015)

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### Voting report

Over the last quarter, we voted at 296 meetings (2,388 resolutions). At 932 of those meetings, we opposed or abstained one or more resolutions. We supported management on all resolutions at 43 meetings.

**Total**  
We voted at 296 meetings (2,388 resolutions) over the quarter.



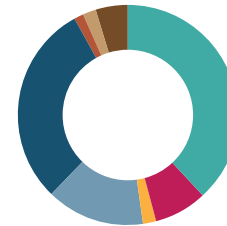
■ Total resolutions voted in favour	<b>58.2%</b>
■ Resolutions where voted against or abstained	<b>39.0%</b>
■ Non-voting	<b>2.7%</b>
■ Say on Pay	<b>0.04%</b>
■ Withdrawn	<b>0.04%</b>

**UK**  
We voted at 54 meetings (595 resolutions) over the quarter.



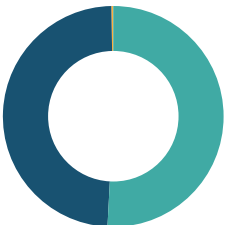
■ Total resolutions voted in favour	<b>74.1%</b>
■ Resolutions where voted against or abstained	<b>25.9%</b>

**UK: votes against and abstentions by category**



■ Annual reports	<b>38.3%</b>
■ Remuneration reports	<b>7.8%</b>
■ Articles of association	<b>1.9%</b>
■ Auditor's appointment	<b>14.3%</b>
■ Directors	<b>29.9%</b>
■ Share capital	<b>1.3%</b>
■ Corporate actions	<b>2.0%</b>
■ Other	<b>4.5%</b>

**North America**  
We voted at 57 meetings (538 resolutions) over the quarter.



■ Total resolutions voted in favour	<b>51.1%</b>
■ Resolutions where voted against or abstained	<b>48.7%</b>
■ Say on Pay	<b>0.2%</b>

**Europe**  
We voted at 44 meetings (360 resolutions) over the quarter.



■ Total resolutions voted in favour	<b>53.6%</b>
■ Resolutions where voted against or abstained	<b>36.4%</b>
■ Non-voting	<b>10.0%</b>

**Japan**  
We voted at 4 meetings (26 resolutions) over the quarter.



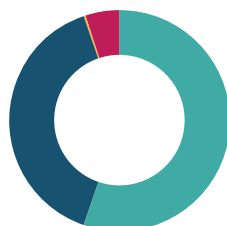
■ Total resolutions voted in favour	<b>80.8%</b>
■ Resolutions where voted against or abstained	<b>19.2%</b>

**Asia (excluding Japan)**  
We voted at 31 meetings (245 resolutions) over the quarter.



■ Total resolutions voted in favour	<b>57.6%</b>
■ Resolutions where voted against or abstained	<b>42.4%</b>

**Rest of the World**  
We voted at 88 meetings (569 resolutions) over the quarter.



■ Total resolutions voted in favour	<b>55.4%</b>
■ Resolutions where voted against or abstained	<b>39.4%</b>
■ Withdrawn	<b>0.2%</b>
■ Non-voting	<b>5.0%</b>

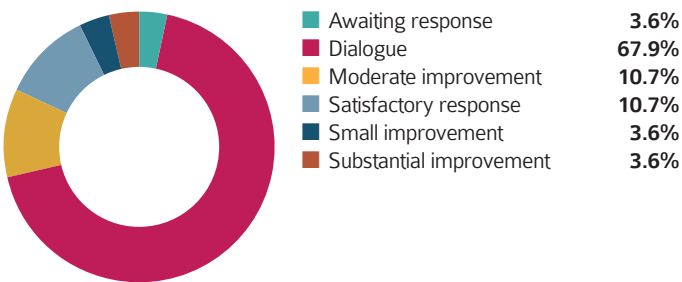


October to December 2014

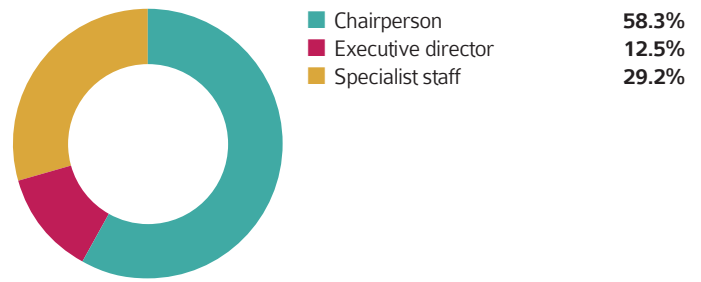
# Engagement summary

Over the last quarter, the Local Authority Pension Fund Forum (LAPFF) engaged with 19 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. The engagements included in these figures are supplementary to our voting-based engagements during proxy season.

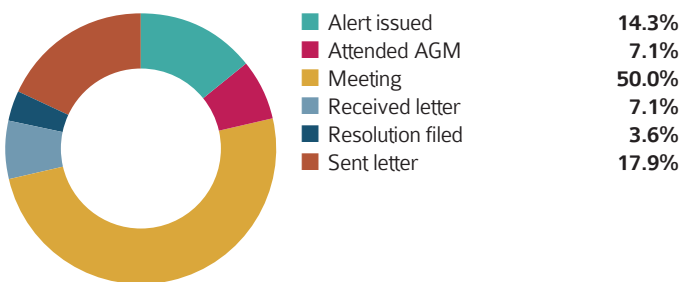
## Engagement by outcomes



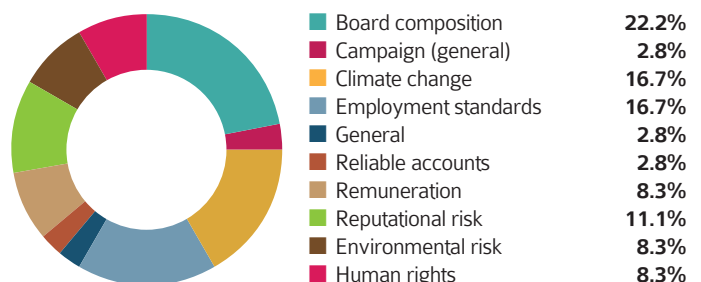
## Engagement by company contact



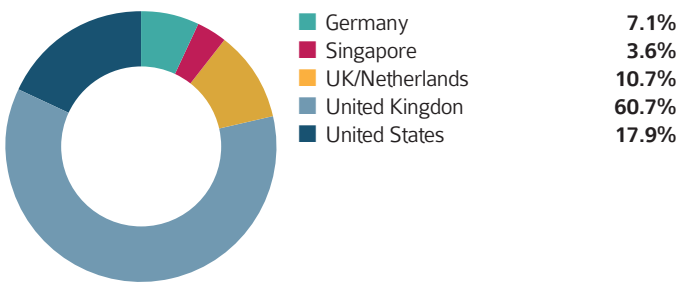
## Engagement by activity



## Engagement by theme



## Engagement by geographical region



# A Guide to Responsible Investment Reporting in Public Equity

January 2015  
Version 1

BT Pension Scheme



Environment Agency  
Pension Fund

Kingfisher

Lothian  
PENSION FUND

NILGOSC  
NORTHERN ISLAND LOCAL GOVERNMENT OFFICERS'  
SUPERANNUATION COMMITTEE



The Pensions Trust



Pension  
Protection  
Fund

Merseyside  
PENSION FUND

nest  
NATIONAL  
EMPLOYMENT  
SAVINGS TRUST

SAUL

Uninvest  
Company



Page 22

BBC  
Pension Trust Ltd

USS  
INVESTMENT  
MANAGEMENT  
LIMITED

RPMI  
RAILPEN

## Background

This guide was drafted following a number of roundtable meetings with pension funds and open consultation with fund managers. It is an iterative document which will be updated to reflect further feedback from fund managers and changing best practice. It should be seen in the context of our wider efforts to include responsible investment in requests for proposals, manager searches, due diligence and investment mandate terms.

## Introduction

With over £200bn of assets we are a group<sup>1</sup> of UK asset owners committed to responsible investment (RI). We believe better reporting can help build our understanding of the extent to which RI factors and activities can help to explain both short and long-term investment risk and performance in public equity. More broadly, we believe RI reporting can help improve transparency and accountability between asset owners and fund managers.

Building on the Principles for Responsible Investment's (PRI) guidance for asset owners on including RI in manager selection and oversight<sup>2</sup>, the aim of this document is to clarify our RI reporting expectations. We are also mindful of the NAPF's Stewardship Disclosure Framework which provides a high level reporting framework<sup>3</sup> reflecting the categories of the FRC's Stewardship Code. Whilst these frameworks provide guidance for reporting at the firm-wide level, this guide is intended for individual mandates.

## Defining responsible investment

As long-term investors, we define RI in this guide as the integration of environmental, social and governance (ESG) factors in the investment decision-making process and stewardship activities.

## An engagement and monitoring tool

The asset owners supporting this guide intend to use it to inform their engagement with, and monitoring of, both current and prospective fund managers. It is hoped the guide will be particularly useful for smaller pension funds and once a mandate has been awarded to a fund manager, where reporting will help us to monitor how well the fund manager's approach to RI is aligned to the broader investment strategy. For example, we would not necessarily expect the same approach to ESG analysis for a growth fund as a tactical opportunities fund. More broadly we intend to use managers' RI reporting to help inform our investment decision-making as well as engagement with our trustees, scheme beneficiaries and other stakeholders.

## Intended fund manager audience

Where fund managers suggest that they already integrate RI in their investment processes, we expect ongoing private client reporting to help us understand in more detail how, and under which circumstances, these activities are taking place. Only through explicit RI reporting will we be able to build our understanding of the extent to which RI factors and activities can help to explain both short and long-term risk and performance. We believe better RI reporting can help fund managers to develop a more disciplined approach to explaining the rationale behind particular RI decisions.

Fund managers should regard these reporting expectations as a guide to help kick-start a process of reflection regarding their approach to RI. We do not expect managers to demonstrate best practice reporting overnight nor should managers feel compelled to deliver all the reporting expectations as a box-ticking exercise. Rather we encourage continuous improvement in RI reporting within a mutually acceptable time frame.

<sup>1</sup> Supportive asset owners include (as of launch): BTPS, PPF, Kingsfisher, West Midlands, Strathclyde, SAUL, Environment Agency, Merseyside, Northern Ireland Local Government Officers' Superannuation Committee, Pensions Trust, Lothian, USS, Unilever, BBC, NEST, RPMI Railpen.

<sup>2</sup> Aligning expectations: guidance for asset owners on incorporating ESG factors into manager selection, appointment and monitoring. UN-supported Principles for Responsible Investment, 2013.

<sup>3</sup> <http://www.napf.co.uk/PolicyandResearch/Corporate-Governance/Stewardship/Stewardship-Disclosure-framework.aspx>

## Improving the quality of RI reporting

The purpose of this guide is to encourage improvements in the quality of RI reporting for individual mandates. In drafting this document we have engaged with a number of managers and recognise that different investment styles and strategies will require different approaches to RI reporting. A one-size-fits-all approach would not be helpful.

A consistent and repeatable approach to generating RI reports could help to avoid adding unnecessary costs and administrative burden for our fund managers. We firmly believe that the long-term benefits that stem from greater transparency and accountability will outweigh any short term incremental reporting costs. Fund managers with high quality RI reporting may be less likely to receive more bespoke reporting requests.

We take a long-term, holistic approach to our relationships with our fund managers and are particularly interested in moving towards understanding long-term ESG trends and the development of metrics to assess long-term investment risk and performance.

## RI reporting can vary in frequency and form

In this guide the term reporting is used in its widest sense, to capture all forms of communication between fund managers and their clients. Reporting can vary in frequency (daily, monthly, quarterly, annually etc.) and form (client specific reports, website portals, public reports, formal and informal verbal updates, analyst blogs etc). We do not prescribe our preferred RI reporting frequency or form.

Our primary objective is to encourage managers to clearly communicate their valuable insights. Where no material RI activity has taken place in the reporting period we encourage nil-responses. The manager is invited to demonstrate reasoning or explanation as to why they do not feel a particular reporting metric is relevant.

We would expect those involved in a specific mandate to be well-informed about the extent to which RI is integrated in the investment process. Portfolio managers in particular are expected to be able to rationalize decisions and give relevant examples of RI activities.

## Clarifying RI reporting expectations

We have divided this section into the two parts of core RI reporting activity:

1. **ESG integration**: the transparent processes for considering environmental, social and governance factors in the manager's investment process including examples. We expect ESG integration to be applied in different ways depending on the fund manager's investment style.
2. **Stewardship**: the policies and processes for identifying companies for engagement and for voting stocks; voting and engagement activities, and evidence of outcomes from those activities. Building on the Financial Reporting Council's Stewardship Code<sup>4</sup>, we regard stewardship activities as a core requirement for both passive and active public equity managers.

<sup>4</sup> <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx>

# 1. ESG integration

Our public equity managers might reasonably be expected to report on two areas of ESG integration in their investment process:

- a) Identification of ESG risk and opportunity; and
- b) Management and monitoring of ESG risks and opportunities.

## 1. (a) Identification of ESG risk and opportunity

- Examples of where and why the manager is prepared to take either stock or sector ESG risks or where it sees opportunities.
- Quantitative or qualitative examples of material ESG factors identified in fundamental analysis and stock valuation.<sup>5</sup>
- Identification of long-term ESG secular trends and themes (as potential determinants of future growth/valuation etc.) and the extent to which they have influenced portfolio construction decisions.
- Relevant information gathered from due diligence and stewardship activity which has informed the identification of ESG risks and opportunities.
- Benchmark relative, portfolio level ESG analysis (for example distribution of portfolio ESG scores relative to the benchmark, ESG scores or qualitative indicators or carbon footprinting) including specific stocks or sector decisions which drive under or over performance. Commentary on the materiality of this information to investment decision-making.
- Any changes to the ESG integration process during the period e.g. new resources, data provision.

## 1. (b) Management and monitoring of ESG risks and opportunities

- Examples of where the manager believes companies' management of ESG issues is a material determinant of performance e.g. lower volatility, sustainable earnings growth etc.
- Any geographic or industry allocation, or stock buying/selling decisions, that were influenced by the identification of ESG portfolio and stock risk and opportunity in the reporting period.
- Stock level ESG analysis for top risk and performance detractors/contributors in the reporting period.
- Any material changes to portfolio companies' ESG performance. Examples may include where the manager's view of ESG risk and opportunity differs from the market/rating agencies.

<sup>5</sup> There is a growing recognition of how ESG performance indicators can impact company value drivers. For further information on the impact of material ESG factors on sales, costs and long-term return on capital please follow this link: [www.unpri.org/~/media/UNPRI/2014/04/20140420/unpri/20140420/unpri/uploads/Integrated\\_Analysis\\_2013.pdf](http://www.unpri.org/~/media/UNPRI/2014/04/20140420/unpri/20140420/unpri/20140420/unpri/uploads/Integrated_Analysis_2013.pdf)



## 2. Stewardship

Fund managers are invited to demonstrate how stewardship activities and ESG integration are connected in the investment process, and in turn, how engagement and voting activities are linked with each other as well as the link with forward-looking ESG analysis. Reporting should provide assurance that the type of engagement activity being undertaken is meaningful- not purely reactive.

The section on stewardship reporting is divided into two sections (a) Engagement and (b) Voting and for each section, where the manager is voting or engaging on behalf of the supporting asset owners, we might reasonably expect reporting on both process and outcomes.

### 2. (a) Engagement

#### Process

- Change in process for identifying engagement targets, change in list of engagement targets, portfolio weighting, engagement objectives, nature of activity (e.g. in-house or collaborative engagement), who attended meeting from company (e.g. Chair, investor relations) and investment firm, anticipated engagement timeline if applicable.
- Updates on any market-wide or public policy initiatives (engagement, consultations etc) responded to which are relevant to the strategy or the market in which it operates, and the underlying rationale for the specific activity undertaken.
- Any changes to resourcing or processes in place to engage portfolio companies (including change of proxy voting or engagement services provider).

#### Outcomes

- Examples of progress against engagement objectives over the reporting period.
- For completed engagements, provide any examples of how you expect engagement will enhance or avoid the destruction of long-term shareholder value or help manage risk.
- In addition to substantive engagement reporting, managers may also provide the percentage of portfolio and/or universe engaged. This may include engagement for the purpose of gathering information.
- For managers with a longer track record on stewardship, we would welcome any analysis on the degree to which engagement has contributed to portfolio level risk or return over time.

## 2. (b) Voting

### Process

- Any changes to proxy voting policy/scope during the reporting period.
- Any changes to resourcing or processes in place to vote portfolio companies.
- Example of how proxy voting decisions are made:
  - Percentage of votes reviewed in-house (We are concerned that some managers follow external voting provider's recommendations without interrogation).
  - Examples of how conflicts of interest (if any) were managed in the reporting period.
  - Explanations for any deviations from proxy voting policy if applicable.
- A description of how and when votes were followed up or pre-empted by engagement activities (including any instances where a vote against management followed on from unsuccessful engagement).
- Information on how voting information was used to inform ESG integration and/or impacted investment decisions.
- Information on how environmental and social issues informed voting activities e.g. any votes (including rationale) on shareholder resolutions.
- Outline of changes to stock lending policies (if any) applicable:
  - Explanations for any deviations from policy; Details of events where holdings (entire or partial) could not be voted due to stock on loan over record date.
  - Any instances where lent stocks were recalled for the purposes of voting.

### Outcomes

- Commentary on headline voting decisions during the reporting period and discussion of any themes/trends emerging in voting activity.
- Percentage of portfolio voted. Where less than 100%, reasons for missed/failed votes should be specified; and the steps taken to investigate and address the reasons behind failed/missed votes explained.
- A list of companies for which votes were cast during the reporting period, split by region, and all voting decisions for each; the rationale for all votes against management and abstentions; and any relevant examples of the rationale for votes in favour of management on controversial issues; explain votes cast (for or against) with respect to M&A resolutions and corporate actions.
- A breakdown of votes cast against management and abstentions by issue (e.g. remuneration, board quality etc).
- Progressive reporting: outcomes of any voting audit including the extent of the audit – which checks whether votes were cast as intended and actually reached the company; Results for key votes against the fund manager's assessment/vote cast.

## Concluding remarks

We hope that this guide will stimulate discussion and facilitate constructive dialogue between asset owners and their fund managers. To reiterate, we do not expect managers to fulfil all of the reporting metrics overnight. Managers are invited to demonstrate reasoning or explanation as to why they do not feel a particular reporting metric is relevant.

We encourage continuous improvement in RI reporting and welcome further dialogue on progressive and innovative approaches to RI reporting which fund managers might work toward over the medium to long-term.

We welcome feedback on this guide including views on whether further guides might be developed for other asset classes.

The group would like to acknowledge the contributions and support from the PRI, NAPF, Ebba Schmidt at the PPF and the fund managers which provided feedback on early drafts. A copy of the paper is available on the NAPF website [www.napf.co.uk/stewardship](http://www.napf.co.uk/stewardship)

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# A Guide to Responsible Investment Reporting in Public Equity

January 2015  
Version 1

BT Pension Scheme



Environment Agency  
Pension Fund

Kingfisher

Lothian  
PENSION FUND

NILGOSC  
NORTHERN ISLAND LOCAL GOVERNMENT OFFICERS'  
SUPERANNUATION COMMITTEE



The Pensions Trust



Pension  
Protection  
Fund



SAUL



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BBC  
Pension Trust Ltd

USS  
INVESTMENT  
MANAGEMENT  
LIMITED

RPMI  
RAILPEN



# Pensions Committee

18 March 2015

<b>Report title</b>	Ending of Contracting Out – Guaranteed Minimum Pension Reconciliation	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Amy Whiles Tel Email	Project Officer 01902 554643 Amy.whiles@wolverhampton.gov.uk
<b>Report has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

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## Recommendations for noting:

The Committee is asked to note:

1. The activity underway to scope and understand the work involved in the reconciliation of Guaranteed Minimum Pension (GMP) records held by HMRC and the associated risks of not completing this project.

## 1.0 Purpose

- 1.1 The purpose of this report is to detail the activity underway to scope and understand the work involved in the reconciliation of GMP records held by HMRC and the associated risks of not completing this project

## 2.0 Background

- 2.1 Members of the Local Government Pension Scheme (LGPS) pay a lower rate NI contribution as they are contracted out of the State Second Pension. Contracting out of the state second pension (formerly SERPS) on a Guaranteed Minimum Pension (GMP) basis operated between 1978 and 1997. In April 2016 the Government is replacing the earnings-related state pension arrangements with a single-tier State Pension.
- 2.2 The introduction of the single-tier state pension from April 2016 will bring about the end of contracting out for defined benefit (DB) schemes and has triggered a requirement for schemes to reconcile their contracted out membership and GMP records with those held by HM Revenue & Customs (HMRC).
- 2.3 GMP reconciliation allows administrators to check their contracted out records against those held by HMRC, resolving any differences between the two sets of records. HMRC have set up a Scheme Reconciliation Service (SRS) to assist pension scheme administrators to reconcile their records for all non-active members (which includes; Early Leaver, Pensioner, Widow, Widower/Civil Partner, Incomplete record) against HMRC records in advance of the ending of contracting-out in April 2016.
- 2.4 Following the Real Time Information (RTI) submission in April 2016 for all active members, HMRC will update their records and issue data schedules to all Funds/pension schemes in January 2017 for reconciliation.
- 2.5 HMRC will be writing to all individuals with a GMP liability in December 2018 informing them of which Fund or pension scheme holds their liability.
- 2.6 There are serious risks to the Fund if reconciliation activity is not undertaken. These include:
- the GMP amounts held by HMRC records will be enforced which could have material implications on the Fund's liabilities
  - If we do not correct our records where appropriate the Fund will have GMP liabilities that will need to be paid
  - Individuals unknown to the Fund will request their GMP entitlement (Post 2018)
  - If we have GMP amounts we are unaware of it will lead to incorrect valuations of the Funds scheme liabilities
  - Incorrect pension amounts being paid to members
  - This could also result in member complaints and reputation risk.

### **3.0 Progress**

- 3.1 The Fund have registered with HMRC's scheme reconciliation service and have received a data file which contains a list of contracted-out periods and GMP data for members who have left contracted-out employment. This file contained 151,000 data entries.
- 3.2 Initial analysis of this data is underway with the HMRC data file and the Fund's pension administration system (UPM). Some preliminary discrepancies between the data have been identified, and these include:
- 24,303 mismatches on contracted out dates
  - 7,937 HMRC data entries where there is no match to a record on UPM
  - 2,517 data entries from HMRC match to a record on UPM where the member has transferred out.
- 3.3 This work will be managed under formal project management rules and has been divided into 3 key stages:
- Stage 1: Scoping and Pilot reconciliation (December 2014 – April 2015)
  - Stage 2: GMP reconciliation cycle (April 2015 - April 2016)
  - Stage 3: Active member reconciliation (January 2017 – December 2018)
- 3.4 The Fund is currently initiating the first stage of the project. The key objective of this stage is to determine the scale of the work that needs to be done, agree the tolerances that we will be working to and understand the resourcing requirements to complete the work. This stage requires some pilot investigation into the initial data discrepancies.

### **4.0 Financial implications**

- 4.1 To manage the first stage of the project, two additional roles have been identified to complete the initial data investigative work and commence the liaison with HMRC. These roles will be required for 2 days a week, for a maximum of 7 weeks and have been sourced from within the existing resources at the Fund.
- 4.2 To mitigate the impact the loss of these resources will have on the workload, overtime will be offered to staff within the teams affected. An estimated cost of £3,160 for completion of this overtime has been estimated.
- 4.3 Additional resourcing costs for the main reconciliation activity will be incurred. This will be determined as part of the completion of Stage 1.

### **5.0 Legal implications**

- 5.1 The report contains no direct legal implications for the Council, however if

### **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 Additional resources to complete the remaining stages of the project will be required, these will be determined as part of Stage 1. It is anticipated that these will be a combination of internal resources on secondment and external agency staff. Any internal resources seconded to the project, will require their existing posts to be backfilled.

## **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.





# Pensions Committee

## 18 March 2015

<b>Report Title</b>	Advisers review	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Simon Taylor Tel Email	Head of Pensions Administration 01902 55(4276) Simon.taylor2@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

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### Recommendations for noting:

The Committee is asked to note:

1. The appointment of two external independent investment advisers to the Investment Advisory Panel.
2. The retirement of the Fund's longstanding property consultant.
3. The intention to go out to tender for the procurement of actuarial services.

## **1. Purpose**

- 1.1 To inform Committee of the status and review of advisory services received by the Fund.

## **2. Background**

The Fund relies upon certain third party organisations to provide advice both from a regulatory and independent stance. The Fund undertakes to review these services to ensure they remain value for money and fit for purpose.

## **3. External investment advice**

- 3.1 Each year, the Committee reviews external investment advice arrangements for the new financial year.
- 3.2 As was reported to and agreed at December's Committee, an Investment Advisory Panel (IAP) is being set up to provide further assurance and robust governance appropriate to planned changes in investment management arrangements, in particular the new active equities management capability. A copy of the IAP's terms of reference is attached in Appendix A. The IAP's first meeting is planned to take place in the second quarter of 2015.
- 3.3 Following an open recruitment process in early 2015, an external independent Investment Adviser has been appointed to the IAP.
- 3.4 Hymans Robertson is the Fund's Investment Consultant. The firm's services have been reviewed and are in line with expectations. The ongoing level of advice from Hymans Robertson is planned to be similar to that for 2014/15 and it is planned that a representative of the firm will attend IAP meetings.
- 3.5 Following the change in direct commercial property management arrangements from advisory to discretionary management with effect from 1 October 2014, John Fender, the Fund's longstanding property consultant, is retiring with effect from 31 March 2015.

## **4. Actuarial Services**

- 4.1 In 2008 the Fund undertook a market review of actuarial services in terms of quality and value for money, with a retendering exercise to follow if required. The outcome of this review was that the incumbents, Mercer, were retained and with a reduction applied to their fees.
- 4.2 In view of the time which has elapsed since the last review and in order to ensure the Fund continues to receive a quality and value for money service, it is the intention to go out to tender for the procurement of actuarial services. In the interest of timescales and also cost, the Fund intends to procure these services via the LGPS National Framework run by Norfolk County Council.

- 4.3 The Fund has compiled a high level timetable of events for this procurement exercise, which has already commenced in earnest in terms of the preparation work required. This timetable is detailed below:

<b>Activity</b>	<b>Timetable</b>
Inform Wolverhampton City Council of intent to tender	23 January 2015
Specification development/refinement and evaluation criteria	16 – 27 February 2015
Tender	2 March – 2 April 2015
Inform Committee of tender process	18 March 2015
Evaluation and interviews	April 2015
Special Pension Committee meeting	17 June 2015
Issue intention to award letters	18 June 2015
Standstill period	19 June – 29 June 2015
Award contract	30 June 2015

- 4.4 At the time of writing this report, the Fund's specification is being drafted which will form the basis of the procurement process and outline the evaluation criteria. As can be seen above, the formal tender will open on 2 March 2015 with submissions to be received by 2 April 2015.
- 4.5 The evaluation process will commence with effect from 7 April with a panel reviewing and discussing results prior to presentations and interviews being made to the panel on 29 and 30 April.
- 4.6 In addition, the procurement process will be overseen by Andy Moran, Interim Head of Procurement for the Administering Authority.
- 4.7 On 17 June 2015 a special Committee meeting has been called with presentations to be made by the bidders for evaluation in conjunction with the recommendations of the panel.
- 4.8 Following the ten day standstill period and the transition period, it is the intention for the contract to commence in the summer of 2015.

4.9 The contract to be awarded will be for five and a half years ending on 31 December 2020 when existing National Framework contracts cease to take effect.

**5. Financial implications**

5.1 The report contains financial information which should be noted.

5.2 There are financial implications contained within this report since it covers the procurement and ultimately the implementation of contracts for services

**6. Legal implications**

6.1 The Fund, on behalf of the Council, will enter into a legally binding contract with third party organisations.

**7. Equalities implications**

7.1 This report contains no direct equalities implications.

**8. Environmental implications**

8.1 The report contains no direct environmental implications.

**9. Human resources implications**

9.1 This report contains no direct human resources implications.

**10. Corporate landlord implications**

10.1 The report contains no direct corporate landlord implications.

**11. Schedule of Appendices**

11.1 Appendix A: Investment Advisory Panel's Terms of Reference

**West Midlands Pension Fund (WMPF)**  
**Terms of reference for the Investment Advisory Panel (IAP)**

**1. Introduction**

- 1.1 WMPF's Pensions Committee and Investment Advisory Sub-Committee are responsible for the setting and oversight of investment strategy. The Strategic Director of Pensions oversees the implementation of committee policy and the management of day to day functions to support its implementation. The Investment Advisory Panel (IAP) advises the Strategic Director of Pensions on investment issues relating to WMPF.

**2. Membership**

- 2.1 The IAP is made up of –

Strategic Director of Pensions, WMPF (Chair)  
Assistant Director, Investments, WMPF  
WMPF's Investment Consultant  
Two external independent Investment Advisers

- 2.2 At least three members are required to form a quorum, one of whom should be the Chair or a nominated alternative.

**3. Meetings and reporting arrangements**

- 3.1 The IAP meets quarterly. In addition to IAP members, other staff of WMPF may be invited to attend meetings in whole or in part.  
Minutes of meetings are issued to IAP members.  
The IAP prepares an annual report for the Pensions Committee summarising its activities for the period under review.  
Independent Investment Advisers will produce annual reports for the IAP on their work and there will be annual self-assessments.

**4. Role and responsibilities**

The IAP's work covers the following areas -

**4.1 Investment Strategy**

Reviewing the economic and market environment in which WMPF operates.  
Monitoring WMPF's portfolio structure, the adherence to and implementation of WMPF's investment strategy. Ensuring that the management of the WMPF's

assets is consistent with the Statement of Investment Policy (SIP) and other guidelines.

Making recommendations on the continuing suitability of the investment strategy having regard to WMPF's liabilities and funding position.

Identifying possible new asset classes and investment opportunities and assessing their appropriateness for WMPF.

#### **4.2 Monitoring and performance**

Monitoring WMPF's investment performance, the performances of the principal segments of the portfolio and the performances of investment managers both internal and external.

Receiving a quarterly report on each of the internally managed portfolios.

Receiving an annual report on each externally managed portfolio or portfolio segment comprising externally managed funds.

Reviewing due diligence for newly appointed external fund managers and for new funds.

Reviewing WMPF's custody arrangements biennially and other support services as appropriate.

#### **4.3 Risk management**

Reviewing the investment risks taken by WMPF, monitoring how the risks are managed and making recommendations on actions required to address investment risks.

Making recommendations on appropriate limits for individual exposures and holdings.

Reviewing annually lists of approved brokers, deposit takers and other counterparties as appropriate.

#### **4.4 Other**

Monitoring the WMPF's investment costs annually to ensure that they are reasonable.

Reviewing responsible investment issues at least twice per annum.

20 January 2015



# Pensions Committee

18 March 2015

<b>Report title</b>	Local Government Pension Scheme 2014	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Lisa Jones Tel Email	Systems and Technical Manager 01902 554637 Lisa.jones@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

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## Recommendations for noting:

The Committee is asked to note:

1. The activity and progress to date of the implementation of the Local Government Pension Scheme (LGPS) 2014.

## **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 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. The changes to the live pension administration system were initiated from September 2014.
- 2.2 The Fund is continuing to work closely with the software provider to specify and develop the remaining calculations. The Fund continues to minimise the impact on members to ensure they get accurate information as quickly as possible.

## **3.0 Progress**

- 3.1 Following the implementation of the priority system changes, retirement, early leaver and death calculations, the transfer calculation has now been implemented. Work continues on testing the remaining calculations and the resolution of minor calculation issues as they occur in the live UPM environment.
- 3.2 The final phase of the project is the development of the bulk calculations, such as pensions increase, CARE revaluation, and annual benefit calculations which are in the process of specification and testing. All of the bulk calculations are scheduled to be delivered by 31 March 2015.
- 3.3 The previously reported backlog of work for processing retirements is now returned to business as usual. However, there are a number of areas of processing which are still to be managed manually, these include divorce calculations. Further guidance on how transfers into the Fund from other local government pensions schemes is still being produced by government, therefore this area of work is currently on hold or being processed manually for priority cases.
- 3.4 Regular meetings are held with managers across the pension administration service to review the progress of the system changes and the impact on workload.
- 3.5 Employers are updated through the Employer Briefing Note, Employer Peer Group and any further updates are provided when appropriate.

## **4.0 Financial implications**

- 4.1 The project has been managed with existing Fund resources and budget.



## **5.0 Legal implications**

5.1 The report contains no direct legal implications for the Council.

## **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 Due to not having a fully operational pension administration system some manual intervention is still required. These are resource intensive for operational staff which limits capacity to drive forward other key priorities for the Fund.

## **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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