CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee
23 September 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	Conservative	Liberal Democrat
Cllr Peter Bilson	Cllr Paul Singh	
Cllr Ian Brookfield	Cllr Wendy Thompson	
Cllr Keith Inston		
Cllr Jasbir Jaspal		
Cllr Phil Page		
Cllr Tersaim Singh		

District Members
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Mohammed Arif (Walsall Metropolitan Borough Council)
Cllr Damian Gannon (Coventry City Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Angela Sandison (Solihull Metropolitan Borough Council)
Cllr David Sparks (Dudley 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
Address Democratic Support, Civic Centre, 1st floor, St Peter's Square, Wolverhampton WV1 1RL

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

Agenda

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**

2 **Notification of substitute members**

3 **Vice--Chair of the Committee**
[To receive a revised nomination of Vice-Chair of the Committee from City of Wolverhampton Council for the remainder of the Municipal Year 2015/16]

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

5 **Minutes** (Pages 5 - 20)
(a) Pensions Committee – 17 and 24 June 2015
[For approval]

(b) Investment Advisory Sub-Committee – 24 June 2015
[For approval]

6 **Matters arising**
[To consider any matters arising from the minutes of the previous meetings]

7 **Local Government Pension Scheme (LGPS) Reform Update 2015** (Pages 21 - 46)
[To receive an update on the reforms over the last 12 months from Central Government and those anticipated in the next six to 12 months]

8 **SIAB Annual Review** (Pages 47 - 72)
[To review the Fund's investment strategy]

9 **West Midlands Pensions Fund Statement of Investment Principles** (Pages 73 - 86)
[To approve the Fund's Statement of investment principles]

10 **West Midlands Integrated Transport Authority Pension Fund's Statement of Investment Principles** (Pages 87 - 94)
[To approve the Fund's Statement of investment principles]

11 **West Midlands Integrated Transport Authority - Appointment of Investment Adviser** (Pages 95 - 98)
[To appoint an investment adviser to the West Midlands Integrated Transport Authority Pension Fund]

12 **Annual Report and Accounts 2014/15** (Pages 99 - 266)
[To approve the audited annual report for the year ending 31 March 2015, and its publication on the Fund's website]

13 **Accounting Policies 2015/16** (Pages 267 - 280)
[To endorse the Fund's accounting policies for the 2015/16 financial year]

14 **Service Plan Monitoring 2015/16 - Quarter Two and Quarterly Accounts June 2015** (Pages 281 - 300)
[To receive an update on performance against key performance indicators (KPIs) and the forecast outturn for the year against operating budgets as at the end of the second quarter]

15 **Risk and Compliance Monitoring 1 April 2015 - 30 June 2015** (Pages 301 - 332)
[To consider the risk register, feedback on the quarterly compliance monitoring programme and to approve reporting on risks to Committee going forward]

16 **Pensions Administration Report from 1 April to 30 June 2015** (Pages 333 - 354)
[To receive the report on work undertaken by the Pensions administration service during the period 1 April 2015 – 30 June 2015 for both the West Midlands Pension Fund and the West Midlands Integrated Transport Association Pension Fund]

17 **Responsible Investment Activities** (Pages 355 - 362)
[To report on the work undertaken by the Investment team regarding their responsible investment activities between the period 1 April to 30 June 2015]

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CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

Minutes - 24 June 2015

Attendance

Members of the Pensions Committee

Cllr Bert Turner (Chair)
Cllr Keith Inston
Cllr Jasbir Jaspal
Cllr Phil Page
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell MBC)
Cllr Damian Gannon (Coventry City Council)

Trade Union observers

Malcolm Cantello (Unison)
Victor Silvester (Unite)

Employees

Mark Chaloner	Assistant Director, Investments
Geik Drever	Strategic Director of Pensions
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Fund Accountant
Dereck Francis	Democratic Support Officer

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**
Apologies for absence were submitted on behalf of Cllrs Lorna McGregor, Ian Brookfield and Peter Bilson (Wolverhampton City Council); Cllr Angela Sandison (Solihull Metropolitan Borough Council), Mohammed Arif (Walsall Metropolitan Borough Council) , Mr Martin Clift and Mr Ian Smith (Unite)

2 **Notification of substitute members**
No notification of substitutes were received for the meeting.

3 **Declarations of interests (if any)**
No declarations of interests were made

4 **Minutes**

(a) Pensions Committee – 18 March 2015

Resolved:

That subject to the attendance details for the meeting be corrected by amending the designation of David Kane to 'Head of Finance', the minutes of the meeting held on 18 March 2015 be approved as a correct record and signed by the Chair.

(b) Investment Advisory Sub Committee – 18 March 2015

Resolved:

That the minutes of the meeting held on 18 March 2015 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With referenced to Minute No 13 of the Pensions Committee (Information Governance), Geik Drever, Strategic Director of Pensions clarified that on advice the Fund would not register itself as a Data Controller with the Information Commissioner as the Fund was part of Wolverhampton City Council's arrangements.

With reference to Minute No. 16 of the Pensions Committee (Governance Reform 2014, delegated of Integrated Transport Authority), the Strategic Director of Pensions reported that the letter of approval had been received from the Department for Communities and Local Government and that the local Pensions Board that the Fund had established would become a joint board for both the ITA and the West Midlands Pensions Funds.

Referring to Minute No. 20 of the Pensions Committee (Ending of contracting out – guaranteed minimum pension) the Strategic Director of Pensions corrected advice given at the last meeting relating to the effects on reconciliation work on members. The Pensioners and deferred members would be dealt with first and the active members would be done in 2016.

6 **Appointment of Sub Committee and Panel and dates of meetings 2015/16**

The Committee was invited to appoint members to the Investment Advisory Sub Committee and to note the dates and times of the Committee, the Advisory Sub Committee and the Pensions Board.

Referring to the Pensions Board, Malcolm Cantello (Unison) reported on the concerns of his trade union colleagues that the two Councillor representatives on the Board do not comply with the Regulations governing membership of Pensions Board and the that the designation that the Council was attaching to the two Councillors on the Board was causing confusion. Rachel Howe, Head of Governance explained that the final version of the Regulations made it permissible for councillors to sit on Pensions Board and she went on to explain how the regulations had been changed to permit this.

Referring to the Pension Board meeting on 2 July 2015; the Committee wished to make a nomination to the Pensions Board for it to consider electing Cllrs Sandra Samuels and Stephen Simkins as Chair and Vice-Chair respectively of the Board.

Resolved:

1 That the following Members be appointed to the Investment Advisory Sub-Committee for the municipal year 2015/16.

Cllr Bert Turner (Wolverhampton City Council)
Cllr Lorna McGregor (Wolverhampton City Council)
Cllr Jasbir Jaspal (Wolverhampton City Council
Cllr Tersaim Singh (Wolverhampton City Council)
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Damian Gannon (Coventry City Council)
Cllr Rachel Harris (Dudley Metropolitan Borough Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Angela Sandison (Solihull Metropolitan Borough Council)
Cllr Mohammed Arif (Walsall Metropolitan Borough Council)
Mr Malcolm Cantello (Unison)
Mr Martin Clift (Unite)
Mr Victor Silvester (Unite)
Mr Ian Smith (Unite)

2 That the following dates and times of meetings be confirmed:

i. Pensions Committee be held on Wednesdays at 1.30 pm on:
23 September 2015
9 December 2015
16. March 2016

ii. Investment Advisory Sub-Committee to be held on Wednesdays at 10am on:
23 September 2015
9 December 2015
16 March 2016

iii. Pensions Board to be held on Wednesdays at 2pm on:
2. July 2015
19 January 2016

3 That the Chair and Vice-Chair of the Pensions Committee be appointed to serve in the same capacity on the Investment Advisory Sub-Committee for the municipal year 2015/16.

4 That Pensions Board be requested to consider electing Cllrs Sandra Samuels and Stephen Simkins as the Chair and Vice Chair respectively of the Board.

7 **Pensions administration report from 1 January to 31 March 2015**

Geik Drever, Strategic Director of Pensions outlined the salient points of a report on the work undertaken by the Pensions Administration Services during the period 1 January to 31 March 2015 for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Pension Fund (the WMITA Fund).

During the ensuing discussion Cllr Phil Page referred to his experience using the web portal facility and asked if it would be made easier for Councillors to get access to information rather than going through the process of making direct contact with Pensions Service employees. Rachel Howe, Head of Governance undertook to take the comment on board and see what part of the portal he was experiencing the difficulty.

In response to questions from the Committee, the Strategic Director of Pensions reported that additional staff would not be required for the workflow statistics concerning the WMITA Fund as the Pensions Service had always undertaken that work. On the question of the correlation between the workflow statistics and employer membership data, she reported that it was more work but not necessarily more members as membership had remained the same. The servicing of the system was the critical issue. Regarding electronic statements, scheme members had been advised that statements would be issued electronically but that a paper copy would be provided on request to the Fund.

Victor Silvester (Unite) reported on the receipt of communications from insurance companies included in the Club Together magazine under the banner of the West Midlands Pensions Fund and asked whether the Fund received any income from this. The Strategic Director of Pensions reported that the Funds did not receive an income from this. She went on to explain how Club Together forward a magazine to the Fund which it then distributed, with the Fund paying half the postage.

Resolved:

1. That 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 be noted.

2. That the pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund) be noted.

8 **Constitution of the West Midlands Pensions Fund**

The Committee received a report on the Constitution for the West Midlands Pension Fund. The document outlined how the Fund operated, responsibility for functions, the roles of committees and officers together with the rights of Fund members.

Cllr Phil Page requested that any amendments made to the Constitution by the Strategic Director for Pensions under the proposed delegation be reported back to the next available meeting for the Committee to sanction the Director’s action.

Resolved:

1. That the Constitution for the West Midlands Pension Fund be agreed and accepted.

2. That authority be delegated to the Strategic Director of Pensions to amend the Constitution in light of operational and legislative changes and any amendments so made be reported to the next available meeting of the Committee for ratification.

9 **Policy review 2015**

Rachel Howe, Head of Governance, presented for approval policies which detailed how the Fund proposed to manage and operate certain areas of its business.

Malcolm Cantello (Unison) queried whether approval of the Pension Board Member Conduct Review Policy was a matter for the Pensions Board. The Head of Governance reported that the Scheme Manager, 'Wolverhampton City Council' had delegated the matter to the Pensions Committee. In response to a further comment she also undertook to include within the West Midlands Pension Fund Customer Feedback Policy an appropriate reference(s) to the involvement of the Pensions Regulator within the Fund's complaints process.

Resolved:

1. That the Pension Board Member Conduct Review Policy be agreed and approved.

2. That the Employee Travel Policy be agreed and approved.

3. That subject to the inclusion where appropriate of the involvement of the Pensions Regulator in the Fund's complaints process, the Customer Feedback Policy be approved.

4. That the Customer Feedback Policy be agreed and approved.

5. That the Communications Strategy Statement be agreed and approved

6. That the Internal Dispute Resolution Procedure be agreed and approved

7. That it be noted that there are no changes to the Administering Authority Policy Statement.

8. That it be noted that there are no changes to the Funding Strategy Statement.

10 **Trustee training 2014/2015**

Rachel Howe, Head of Governance presented a report which summarised the trustee training activity for the year ended 31 March 2015. 865 hours training had been achieved during the year.

Geik Drever, Strategic Director of Pensions, thanked the Trustees for their commitment to the training and looked forward to their continuing commitment to the training programme in the current financial year. She also added that there would be five hours of training on the forthcoming property tour.

The Committee was also informed that there would be an induction for new Trustees on 22 July. There would also be a workshop on 'risk' at 3pm on 22 July at Mander House. An invitation to the training sessions was extended to all Trustees.

Resolved:

That the summary of trustee training activity in the year ending 31 March 2015 be noted.

5 **Risk and compliance monitoring 1 January to 31 March 2015**

Rachel Howe, Head of Governance presented a report on a revised risk register, feedback on the quarterly compliance monitoring program and on a changed approach to risk and compliance monitoring. She reported that the risk register was a much more active document. There were no areas of concern within the report.

Resolved:

1. That the risk register for West Midlands Pension Fund be noted.

2. That the changed approach to risk and compliance monitoring be noted.

3. That it be noted that no significant compliance issues have arisen during the quarter.

17 **Draft annual report and accounts 2014/15**

David Kane, Head of Finance, presented the Fund's draft annual report and statement of accounts for the year ending 31 March 2015. The report also set out the outturn against operating budgets and performance against key performance indicators (KPIs) for the year. In doing so the Head of Finance reported that Wolverhampton City Council's Section 151 Officer had approved the accounts which would be externally audited by PricewaterhouseCoopers during July/August. The final version of the annual report and accounts would be reported back to the Committee in September. He also informed the Committee that it had been a good year for the Fund and he highlighted some of the particular successes. A number of changes had been made to the annual report and accounts since the publication of the report, including correcting typographical errors, none of which affected the bottom line within the accounts. An annotated version containing the changes was available at the meeting. The Head of Finance also reported on a correction to the actual and benchmark for key performance indicator 5 within the annual report.

In response to questions regarding underspends against the operating budget for 2014/15 the Head of Finance explained that underspends would remain with the Fund. The larger areas of underspend, such as Investment Management Fees would be recurring savings. Regarding staffing vacancies he reported that the underspend reflected the difficult position the Fund had in recruiting. He did not anticipate that this underspend would remain. The Strategic Director of Pensions confirmed the problems and challenges the Fund had in recruiting. She would be in discussions matter with the Council's HR section about the situation and was revising the Pension Service's structure as well. She indicated she would come back to the Committee on the service's structure at the end of the year. She also commented on the main reason for the variance in savings against the operating budgets.

The Strategic Director Pensions also tabled a proposed press release on the Fund and its investment performance to be issued the following day.

During the discussion Malcolm Cantello (Unison) sought clarity on a figure within the Management and Financial Performance section of the Annual Report. He also indicated that he would go through some of the changes made to the report and accounts with Head of Finance.

Resolved:

1. That the draft annual report and accounts for the year ending 31 March 2015 be approved.

2. The outturn against operating budgets, which is an under spend of £3.7 million, and performance for the year against the Fund's key performance indicators be noted.

3. That it be noted that the draft accounts have been certified by the Section 151 Officer as required by regulations;

4. That it be noted that the draft annual report and accounts would now be subject to audit by the Fund's external auditors, PricewaterhouseCoopers, with the final version, including their audit opinion, to be reported to the Committee in September 2015.

5. That the press release be approved.

13 **Service plan monitoring 2015/16 quarter one**

David Kane, Head of Finance, presented an update report on the Fund's performance against key performance indicators and the forecast outturn for the year against operating budgets as at the end of the first quarter of 2015/16. He reported that the quarter one performance was good with a few exceptions. He also drew the Committee's attention to a forecasted underspend of £310,000 compared with the funds operating budgets as at the end of the first quarter. The estimated saving had arisen primarily on staffing budgets due to a number of posts being held vacant, or in the process of being recruited to during the year to date.

Resolved:

1. That performance against the Fund's key performance indicators as at the end of the first quarter be noted.

2. That the forecast outturn against operating budgets as at the end of the first quarter, which is an under spend of £310,000 be noted.

14 **Annual Internal Audit report 2014/15**

Internal Audit presented the Fund's Annual Internal Audit Report 2014/15. The report formed part of the Fund's assurance framework. Internal Audit were able to provide reasonable assurance that the Fund had adequate and effective governance, risk management and internal control processes.

Internal Audit also informed the Committee that all issues identified during the internal audit work period 2014/15 had been discussed with the Fund's management and recommendations agreed. It wished to record its thanks to the Fund for its cooperation throughout the year.

Resolved:

That the contents of the Annual Internal Audit Report 2014/15 be noted.

15 **Annual Internal Audit plan 2015/16**

Internal Audit presented the Fund's Annual Internal Audit Plan for 2015/16. The plan had been prepared in consultation with the Fund's Senior Management Team.

Resolved:

That the contents of the Annual Internal Audit Plan 2015/16 be noted.

16 **Responsible investment activities**

Mark Chaloner, Assistant Director of Investments outlined the salient points of the report on work undertaken by the Investment Team regarding their responsible investment activities between the period 1 January to 31 March 2015.

Mike Cantello (Union) thanked the officers for the work they had done on this area. Referring to the update within the report on National Express's North American operations, he commented that the discussions had gone on for some years. Whilst the shareholder resolution had not been passed he felt that it was useful to have put forward the Fund's views. He also said that he hoped the Fund would get an appropriate response from the Company next year. Referring to the 'Israel Palestinian campaign', he suggested that an update on the latest position be forwarded to the individual concerned who had previously been in correspondence with the Committee on the matter. The Assistant Director of Investments undertook to write an update letter to the individual concerned.

Resolved:

1. That the Fund's voting and LAPFF's engagement activity for the three months ending 31 March 2015, including Appendix 1 be noted.

2. That 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 be noted.

3. That the updates on the National Express and BP shareholder resolutions as well as the Israeli-Palestinian related research and engagement program respectively be noted.

17 **Responsible investment framework**

Mark Chaloner, Assistant Director of Investments presented for approval the Funds Responsible Investment Framework which replaced the Socially Responsible Investment Statement.

Resolved:

1. That the Fund's new Responsible Investment Framework, which replaces the current Socially Responsible Investment Statement be approved.

2. That it be noted that the Fund's Statement of Investment Principles had been amended throughout the year to reflect Committee's decisions and that it would be finally submitted for approval at the next meeting.

3. That it be noted that the Corporate Governance and Socially Responsible Investment section of the Fund's Statement of Investment Principles would be replaced by key elements of Responsible Investment Framework.

18 **Investment policy and performance report 2014/15**

Mark Chaloner, Assistant Director of Investments outlined the salient points of the report of the Fund's investment policy and investment returns for the year to March 2015. In response to a question from Malcolm Cantello (Unison), he explained why the Fund was holding more cash than it would normally.

Resolved:

That the Fund's investment policy and investment returns for the year to 31 March 2015 be noted.

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CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

Minutes - 17 June 2015

Attendance

Members of the Pensions Committee

Cllr Bert Turner (Chair)
Cllr Ian Brookfield
Cllr Keith Inston
Cllr Jasbir Jaspal
Cllr Phil Page
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Wendy Thompson
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Mohammed Arif (Walsall Metropolitan Borough Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Angela Sandison (Solihull Metropolitan Borough Council)

Trade Union observers

Malcolm Cantello (Unison)
Victor Silvester (Unite)

Employees

Geik Drever	Strategic Director of Pensions
Dereck Francis	Democratic Support Officer
Simon Taylor	Head of Pensions Administration
Amy Whiles	Project Officer

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**
Apologies for absence were submitted on behalf of Cllr Peter Bilson (Wolverhampton City Council) and Mr Martin Clift and Mr Ian Smith (Trade Union observers)

2 **Notification of substitute members**
No notifications of substitutes were received for the meeting.

3 **Declarations of interests (if any)**
No declarations of interests were made.

4 **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 of business as it involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act

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

5 **Procurement of Actuarial and Benefit Consultancy Services**

Geik Drever, Strategic Director of Pensions reported that the purpose of the meeting was for the Committee to be involved in the final stage of the evaluation process for the procurement of actuarial and benefit consultancy services received by the Fund.

As part of the final stage of the evaluation process, the Committee received presentations from four actuarial and benefit consultancy firms.

Resolved:

1. That the tender evaluation process for the procurement of actuarial and benefit consultancy services be noted.

2. That Barnett Waddington be appointed as the preferred actuarial and benefit consultancy provider in accordance with the formal evaluation process for a contract period 1 July 2015 to 31 December 2020.

CITY OF WOLVERHAMPTON COUNCIL

Investment Advisory Sub-Committee

Minutes - 24 June 2015

Attendance

Members of the Investment Advisory Sub-Committee

Cllr Bert Turner (Chair)
Cllr Jasbir Jaspal
Cllr Tersaim Singh
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Damian Gannon (Coventry City Council)

Trade Union observers

Malcolm Cantello (Unison)
Victor Silvester (Unite)
Ian Smith (Unite)

Observer
Cllr Wendy Thompson

Employees

Mark Chaloner	Assistant Director, Investments
Geik Drever	Strategic Director of Pensions
Dereck Francis	Democratic Support Officer
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance

Part 1 – items open to the press and public

Item No. *Title*

1 **Apologies for absence (if any)**
Apologies for absence were submitted on behalf of Cllrs Mohammed Arif (Walsall Metropolitan Borough Council) Angela Sandison (Solihull Metropolitan Borough Council), Lorna McGregor (City of Wolverhampton Council) and Martin Clift (Trade Union Representative)

2 **Substitute members**
No notifications of substitutes were received for the meeting.

3 **Declarations of interest (if any)**
No declarations of interest were made.

4 **Minutes of last meeting (18 March 2015)**
Resolved:
That the minutes of the meeting held on 18 March 2015 be approved as a correct record and signed by the Chair.

5 **Matters arising**

There were no matters arising from the minutes.

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 paragraph 3 of Schedule 12A of the Act set

Item no.	*Title*
7	Presentation from Royal London
8	Economic and market update - June 2015
9	Asset allocation and investment performance quarter one 2015
10	Transition on overseas equities portfolios
11	Update on investment collaboration opportunities
12	Cleveland planning application update
13	West Midlands Integrated Transport Authority asset allocation and investment monitoring report quarter one 2015

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

7 **Presentation from Royal London**

The Sub-Committee received a presentation from Jonathan Platt and Martin Foden from Royal London on ‘an introduction to buy and maintain corporate bonds’.

At the end of questions on the presentation Cllr Bert Turner thanked Royal London for making a useful presentation.

8 **Economic and Market Update - June 2015**

Mark Chaloner, Assistant Director, Investments summarised the key elements of the review in the global economy and investment markets produced by the Fund’s Investment Advisers Hymans, Robertson.

Resolved:

That the global economic and market update paper prepared by the Fund’s adviser, Hymans Robertson be noted.

9 **Asset allocation and investment performance quarter one 2015**

Mark Chaloner, Assistant Director, Investments summarised the key elements of the quarterly asset allocation and investment monitoring report for the Fund. The report covered the performance of the Fund and the implementation of its investment strategy for the period 1 January to 31 March 2015. The Assistant Director welcomed feedback on the new format of the performance monitoring report.

In response to a question about possible investment of cash balances into bonds, the Sub Committee was advised that some would be made in due course. In addition some of the cash resources had been invested in equities since the end of the quarter.

Resolved:

That the contents of the Asset Allocation and Investment Performance report for the quarter ended 31 March 2015 be noted.

10 **Transition on overseas equities portfolios**

Mark Chaloner, Assistant Director, Investments outlined the salient points of a report on progress made following the Committee's prior agreement for the Fund to restructure its listed equities portfolios.

Malcolm Cantello (Unison) commented that the work undertaken and changes made had been a real benefit to the Fund.

Resolved:

That the restructuring and associated transition of the Fund's overseas equities portfolios carried out during the first quarter of 2015 be noted.

11 **Update on investment collaboration opportunities**

Geik Drever, Strategic Director of Pensions presented the update report on investments collaboration opportunities.

In response to questions from the Sub Committee, the Strategic Director of Pensions confirmed that the West Midlands Pension Fund was one of the ten large UK pension funds that founded the Pensions Infrastructure Platform (PIP). She also responded to the questions about the costs associated with managing the PIP.

Referring to a meeting with District Regeneration and Local Enterprise Partnership leads on 22 June 2015, the Strategic Director Pensions undertook to ask the PIP to attend a meeting of the Sub Committee later in the year.

Resolved:

That the update on investment collaboration opportunities set out in the report be noted.

12 **Cleveland planning application update**

Geik Drever, Strategic Director of Pensions presented a progress report on the planning application process for a residential scheme for up to 1000 homes on the Fund's agricultural land in Cleveland.

Ian Smith (Unite) queried how much the Fund had spent so far on the planning application process. The Strategic Director of Pensions reported that the Fund had invested a lot of time in this issue during the last four/five years.

Resolved:

That the report be noted including recent developments and the potential courses of action.

13 **West Midlands Integrated Transport Authority asset allocation and investment monitoring report quarter one 2015**

Mark Chaloner, Assistant Director, Investments presented the quarterly asset allocation and investment monitoring report for the West Midlands Integrated Transport Authority (ITA) Pension Fund. The report covered the performance of the Fund and the implementation of its investment strategy for the period 1 January to 31 March 2015.

Resolved:

That the contents of the Asset Allocation and Investment Performance report for the quarter ended 31 March 2015 be noted.

Agenda Item No: **7**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

23 September 2015

Report title	Local Government Pension Scheme (LGPS) Reform Update 2015	
Originating service	Pension services	
Accountable employee(s)	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	Rachel.howe@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever	Strategic Director of Pensions
	Tel	01902 552020
	Email	Geik.drever@wolverhampton.gov.uk

Recommendations for action or decision:

The Committee is recommended to:-

a) Endorse discussions with other funds on pooling for investments and contribute to costs of any data collection and project development

Recommendations for noting:

The Committee is asked to:-

a) Note the contents of the report

1.0 Purpose

1.1 To provide Committee with an update on the reforms of the Local Government Pension Schemes over the last 12 months from Central Government and those anticipated in the next 6 – 12 months.

2.0 Background

2.1 The Public Service Pension Commission, headed by Lord Hutton, made a number of recommendations about the future design of public service pension schemes. As a result, the Government is looking to reform the LGPS, along with other public service schemes, so that the cost of providing these pensions is affordable, not just now but in the decades to come.

2.2 The Government's position is that public service pension schemes, including the LGPS, will remain among the very best available, providing a defined benefit pension for all employees.

2.3 This report discusses some of the key themes and considerations facing LGPS funds as we strive to meet the Government's requirement to be affordable, cost effective and most importantly sustainable.

3.0 The Scheme Advisory Board (SAB)

3.1 Committee will recall that as part of the Governance Reforms, the National Scheme Advisory Board was formally created on 1 April 2015, it having operated in shadow form throughout 2014.

3.2 The purpose of the SAB is to be both reactive and proactive in encouraging best practice throughout LGPS funds, increasing transparency and coordinating best practice. The SAB also provides advice to the Secretary of State on the desirability of changes to the scheme while also assisting schemes themselves on their effective and efficient management and administration.

3.3 The interim SAB consists of 21 seats, The Chair, 6 Employer representatives, 6 Member (Trade Union) representatives, 5 Advisors, 3 Observers

3.4 Currently, the Secretary of State has not made a formal appointment to the Chair of the National Board and it currently sits in transition pending formal appointments.

3.4 SAB Workplan

3.4.1 To focus its work over the next 12 months, the SAB has created a work program focussing on themes it believes are a priority for the LGPS in the coming year and include

- Deficit Management
- Cost control

- Knowledge and Understanding guidance for Trustees and Local Pension Board Members
- Options for separation
- Value for money guidance
- Scheme annual report
- Engagement Guidance
- Guidance on the Pension Regulator's Code of Practice.

A copy of the SAB's workplan is attached at Appendix 1.

3.4.2 As reported to Committee last year, the Fund was anticipating contributing to the budget of the SAB as it was believed the SAB would be funded by funds in the Public Service Schemes. This figure has not (at the time of writing) been confirmed by the SAB but initial figures suggest the cost to WMPF is around £35,000.

3.5 SAB Performance and Benchmarking

3.5.1 As part of the work of the SAB, earlier in the year it published proposals for benchmarking funds in the LGPS for performance and efficiency. Committee will recall the training on the proposed Key Performance Indicators (KPIs) drafted by the SAB which are intended to be used to benchmark funds in ensuring effective governance and administration.

3.5.2 Since that time WMPF have been engaged with a pilot scheme. The pilot gave funds the opportunity to help develop the KPIs and in particular assess their funds against the examples of best practice and concern for each KPI, inform on the effort, time and cost consumed in carrying out the assessment and provide general feedback before their implementation.

3.5.3 Following this feedback, the SAB have redrafted the KPI template and guidance, providing more clarity around the KPI definitions. This will be issued to all funds in early September for completion by 31st October 2015.

3.5.4 The SAB will review the outcome of the pilot in early 2016 and will recommend to DCLG that reference to SAB guidance on annual reporting and KPIs are included in LGPS regulations/scheme guidance and/or as part of 31st March 2016 valuation process. They will then be issued in April 2016 and from December 2016 used as tool to assess and support funds accordingly.

3.6 LGPS options for separation

3.6.1 As detailed above, one area of work for the SAB over the coming months is to consider options for separation in the LGPS from lead authorities. The SAB have appointed KPMG to look into these proposals.

3.6.2 As it stands within England and Wales the Local Government Pension Scheme is one Scheme administered by different authorities who each operate a Fund within this larger Scheme. The size of those individual funds vary, as do their operational structure (which in part was the reason for the governance reforms earlier this year). Some share services with other administering authorities while some, which may be quite small in comparison, delegate their responsibilities under S101 of the Local Government Act 1972.

3.6.3 The SAB is keen to gather opinion on how the LGPS should be structured with the continued intention to improve governance and efficiency while ensuring all funds operate on a comparable basis.

3.6.4 Option 1 – Stronger role for the Section 151 Officer within a district entity of a host authority

Primary recommendations

- Separation of financial statements and audit arrangements
- Pension fund specific annual governance statement
- Specific delegations or require a senior officer to lead the function
- Group the responsibility for all LGPS related activity within one function

Currently, regulations require that the pension fund accounts are incorporated into the administering authority's accounts. This option proposes that the two become distinct documents in their own right necessitating the need for separate operating budgets and audit requirements. It would also require a separate annual governance statement confirming the effectiveness of the fund's internal controls.

Under this option, there would be a requirement to either move the pension fund responsibilities from the administering authority's S151 officer to another senior officer who would hold that specific function or to create a dedicated senior officer to take on the pension fund responsibilities, thereby removing the potential for conflict.

In doing so, that officer would then be responsible for one organisation unit grouping all elements of pension fund activity within it. WMPF operates under this structure at present, with responsibility resting under the Strategic Director of Pensions and with the Section 151 (Director of Finance WCC) and monitoring officer (Director of Governance WCC) assisting.

3.6.5 Option 2 – Joint Committee of two or more administering authorities

Primary recommendations

- Delegation of full scheme manager function and all decision making to a section 102(5) joint committee.
- Employment of staff and contractual issues dealt with through lead authority of wholly owned company
- Ownership of assets unchanged
- Consideration to be given to enshrining the structure in legislation in the form of a combined authority.

The current structure we have at WMPF with the West Midlands Integrated Transport Authority Pension Fund (ITA) is one example of how Option Two might operate.

Committee will recall at its March meeting Trustee's received a request from ITA to accept a delegation under S101 of the Local Government Act 1972 for the management and administration of the ITA fund and to act as the decision making body for all matters relevant to that work. Under this delegation each authority, WMPF and ITA remain their own legal body holding assets, and liabilities, in their own names.

Since this delegation has been accepted, officers at the WMPF have drafted and issued a letter to the Treasurer Officer at ITA confirming our role going forward. A copy of that letter is attached as Appendix 2.

The consideration provided under Option 2 is to then extend this arrangement further by creating the joint committee as its own legal entity through the creation of a combined authority or jointly owned company. This would create the pension fund as its own legal entity whereas currently it is not thereby requiring all assets to be held in the name of the administering authority. As a legal entity, the Fund could then employ its own staff and enter its own contracts taking responsibility for all assets and liabilities, but still subject to the governing rules of local authorities. This may be useful when considering pooling investment opportunities.

3.6.6 Option 3 – LGPS complete separation of the pension fund from the host authority

Primary recommendations

- Remove decision making from elected members
- DCLG or Treasury to create single purpose pension boards.

This option proposes that Central Government create a department to take over the function of pensions thereby removing the need for local authorities to take on the role. The suggestion is that the department could still exist in the public sector but take on a corporate pension structure designed to fully comply with the IORP Directive and completely separate from the admin authority.

In doing so they would take on local authority staff currently dedicated to pensions within their administering authority.
Alternatively, rather than create a single pension authority, this option also proposes to remove potential conflict between the admin authority and the pension fund by placing the fund in a separate body with its own duties aligned solely to the benefit of its members.

3.6.7 The outcome of this study will be going to SAB on 21 September 2015 and a verbal update will be provided to committee at the meeting.

4.0 LGPS Pooled Investment

4.1 In the summer budget (on 8 July 2015), the Chancellor announced that 'the government will work with the LGPS administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The Government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out these detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.' (Page 78 of the red book).

4.2 The announcement represents the latest phase in the work to deliver savings from LGPS investments, building on May 2014's consultation ' Opportunities for collaboration, cost savings and efficiencies', the Fund's response to which was agreed by the Pensions Committee in June 2014 (agenda item 20). The then coalition government did not revert with any proposals following that consultation.

4.3 It is expected that the government will publish the common criteria in the autumn. These are expected to focus on the size/scale of investment pools, costs and governance arrangements. It is expected also that there will be a consultation on the LGPS Investment Regulations then. The LGPS will be given the opportunity to put forward its own proposals. The term 'pooling' appears to be deliberately broad and could involve initiatives such as joint procurement, collective investment vehicles and other forms of collaboration.

4.4 The government is likely to welcome building on existing collaboration work undertaken by LGPS funds, for example the Common Investment Vehicle (CIV) set up by the London LGPS funds and joint procurement initiatives. There appears to be an assumption that scale - leading to the creation of small number of large pools – can deliver significant benefits.

4.5 WMPF is supportive of continued collaboration with other LGPS funds, building on initiatives such as Investing for Growth, the National LGPS Frameworks and the Pensions Infrastructure Platform (PIP). As one of a number of LGPS funds with an established internal investment management capability, it believes that in-house investment management should continue to have a crucial role to play in delivering good investment performance cost effectively.

4.6 Discussions are taking place at officer level with other LGPS funds to determine potential solutions. Several other LGPS funds also have successful in-house investment capabilities and there should be scope to build on these through collaboration.

4.7 Committee is therefore requested to endorse these discussions and also to contribute to costs of any data collection and project development on these solutions with other funds.

4.8 It is not envisaged that changes will be made to the powers of local section 101 committees, which will continue to be responsible for the setting of investment and funding strategy and determining the asset allocation for the fund.

4.9 The Pensions Committee will be updated once the government publishes its consultation and criteria. Its approval will be sought to any proposals in relation to WMPF and the pooling of LGPS investments.

5.0 Deficit Management

5.1 The Scheme Advisory Board (SAB) was tasked with looking at innovative proposals for managing scheme deficits. On 23 June 2015 SAB sent a letter to DCLG outlining five recommended changes to scheme regulations, aimed at improving the management of scheme deficits. The five changes would bring:

- Calculation of funding levels by fund actuaries on a standardised basis by 30 September in each triennial valuation year;
- Set and publish assumptions to be used for standardised funding calculations by SAB by 31 March in each triennial valuation year;
- Additional disclosure and fund actuary certification of aggregate and individual employer contribution rates (split by future and deficit contributions, with deficit contributions expressed as a cash sum);
- Consultation on setting and calculation of minimum employer contribution rates; and
- Additional disclosure of deficit recovery plan methodology in funding strategy statements.

5.2 The SAB working group held a further “blue sky thinking” meeting at the end of July 2015. The Trustees will be updated on any material developments from this group as and when they become available.

6.0 Summer Budget Changes on Pension Taxation

6.1 In his 8 July 2015 budget, the Chancellor announced a further reduction in the Annual Allowance for higher earners from April 2016 and a broader consultation on pension tax relief.

Annual Allowance reduction for “high earners”

6.2 The Annual Allowance is the maximum amount an individual’s pension savings can grow tax-free in any one year. Pension savings above this level are taxed as income. The Annual Allowance was set at £40,000 per annum with effect from the 2014/15 tax year. From April 2016 it will be tapered down to £10,000 for those with “earnings” between £150,000 and £210,000 and set at £10,000 for those with earnings over £210,000.

6.3 “Earnings” for the purpose of this test (the earnings test) *include* the value of employer funded pension benefits built up over the year. The earnings test (and tapered Annual Allowance) will only apply to those with taxable income (excluding pensions) above

£110,000. In practice, those building up standard LGPS benefits with taxable income over £170,000 are likely to see their Annual Allowance reduce to £10,000. All else being equal, the £30,000 fall in allowance for these members will generate additional individual pension tax charges of £13,500 per annum.

6.4 The tapering removes £1 of Annual Allowance for every £2 earnings exceeds £150,000. For example a member with "earnings" (taxable income *plus* pension) over the year of £155,000 will have an Annual Allowance of £37,500; a member with earnings of £180,000 will have an Annual Allowance of £25,000.

6.5 As the tapering only applies when taxable income (excluding pensions) exceeds £110,000, more moderate earners who experience "one-off" increases in the value of their pension in a single year (for example due to promotion) should be protected from the change. Overall, however, the change is expected to increase the number of members who incur pension tax charges at the point pension is earned.

6.6 As the Annual Allowance for the tax year will depend on earnings in that tax year planning to avoid the incidence of pension tax will be more difficult as there will be some uncertainty as to an individual's Annual Allowance until the end of the tax year.

6.7 To facilitate this change, the LGPS Pension Input Period (PIP) will change from 31 March to align with tax years from 2016/17, with transitional arrangements for 2015/16. Under the transitional arrangements, members will have an Annual Allowance of £80,000 for 31 March 2015 to 5 April 2016 with a limit of £40,000 over the period 9 July 2015 to 5 April 2016 (before allowing for any "carry forward" in unused allowance from the three previous years).

6.8 In the LGPS members can elect to pay any pension tax charges incurred through "Scheme Pays". Under this arrangement the Fund pays tax on behalf of the member and Fund benefits are reduced accordingly.

6.9 The Fund will need to collate additional information (such as total taxable income over the prior tax year) to calculate members' Annual Allowance and assess whether or not pension earned over the year has exceeded this limit. It is expected that the changes will impact a limited number of members in practice but those affected will need to review their own individual tax position and assess the options available to them to mitigate the potential increase in personal tax charges.

6.10 Following completion of the 2015 annual return and benefit statement exercise, the Fund will review membership records to identify those potentially affected by the change and liaise with employers accordingly. The Fund's member relationship officers are already talking to employers and employees about the change and are available to discuss the changes with individuals and small groups, as required.

Consultation on pension tax relief

6.11 The government has launched a “big picture” review of pension tax relief called “strengthening the incentive to save”. The consultation encourages an open discussion on reform to the current system, inviting views on a full range of options from fundamental reform (for example, moving to a “Taxed-Exempt-Exempt” system similar to ISAs) to further changes to the current system (through the Lifetime and Annual Allowances). The context for consultation is increasing life expectancy and a trend towards defined contribution pension savings (both challenging the adequacy of pension saving) together with an evolving pension and savings industry.

6.12 The aim is to ensure all individuals have a simple and transparent incentive to save (and are personally responsible for having) sufficient income for retirement whilst ensuring the support given through the tax system is sustainable over the longer term. The current system is estimated to have “cost” almost £50 billion in tax/NI relief over 2013/14.

6.13 The government acknowledges that the outcome could be “no change”, not least because of the issues change would bring (ranging from macro-economic to implementation costs) and the competing nature of objectives. The consultation will close on 30 September 2015.

6.14 The potential implications and impact on the members and the Fund are wide-ranging. Any material change to the current system is likely to affect how members save for retirement and impact on the administration of the Fund. The consultation could lead to greater transparency of the value of pension tax relief and a simpler (e.g. flat-rate) approach to taxation. It could also lead to greater complexity in the current system which is getting increasingly harder for members to understand and manage.

7.0 Public Sector Exit Payments cap of £95,000

7.1 On 31 July 2015 HM Treasury announced a four week consultation on capping exit payments for Public Sector workers. The proposed cap of £95,000 is to include employer contributions required to meet the cost of early access to pension benefits.

7.2 In the LGPS, members over age 55 currently have an entitlement to access unreduced benefits when they are made redundant or leave on grounds of business efficiency. Under the consultation, members would still be able to access benefits but only to the extent they can do so without breaching the cap (or in full if the member meets the additional cost of early access). It is unclear at this stage how the cap would operate in practice but changes will need to be made to the LGPS regulations to reflect any cap.

7.3 The consultation also notes that the Government is considering further reforms to employer funded early retirement promises.

7.4 A briefing note, attached as Appendix 3, outlining the key points from the consultation and potential issues (including wider employment related issues) associated with the proposal was issued to employers in August 2015. Not all employers will be subject to the cap but those who are not are expected to formulate their own payment cap. The Fund shared this note (and comments on the operational aspects from a Fund perspective) with LGA for inclusion in their formal response.

7.5 The cap could be introduced as early as April 2016. The Trustees will be updated on the outcome of the consultation and any proposed amendments to LGPS regulations as details of these emerge.

8.0 Financial implications

8.1 The Fund has made provision in its 2015/16 operating budget for the contribution to the Scheme Advisory Board. The other developments set out in this report may have financial implications for the Fund in the longer term, but it is too soon to quantify these.

8.2 Contributions relating to development of proposals and project development is expected to be in the region of £10,000 and can be funded from the service development budget.

9.0 Legal implications

9.1 At this stage the information contained within this report is for noting and no decision is required to be made. All legal implications are noted within the report.

10.0 Equalities implications

10.1 The report notes changes to the scheme as recommended or created by Government whose policies would have undertaken their own assessment prior to circulation.

11.0 Schedule of background papers

11.1 Report to March Pensions Committee “Delegation from ITA”

http://wolverhampton.moderngov.co.uk/documents/s9109/Governance%20Reform%202014%20Delegation%20of%20the%20Integrated%20Transport%20Authority.pdf

12.0 Appendices

12.1 Appendix 1
National Scheme Advisory Board workplan

12.2 Appendix 2
Letter to ITA regarding role of WMPF Pension Committee under delegation.

12.3 Appendix 3
Copy briefing note circulated to employers on Public Sector Exit Payments

Scheme Advisory Board for the Local Government Pension Scheme (LGPS) in England & Wales - 2015/16 Work Programme

1. Introduction

This paper outlines the planned work programme for the LGPS statutory advisory board (SAB) in 2015/16, its first year of operation. The items included in the work programme are those which the Shadow Advisory Board believe are a priority for the LGPS in England & Wales in the coming year and the content of the work programme has been driven by four main sources:

- matters that the Statutory Advisory Board has a statutory requirement to fulfil under Scheme regulations (for example, providing guidance to administering authorities, the cost control process),
- matters upon which the Shadow Board have been asked to take forward by Government (for example, the scheme annual report, the deficit management project),
- matters that the sector has raised as important for the Scheme (for example, guidance on the Pensions Regulator's code of practice), and
- matters that the Shadow Board itself deems as priorities for the Scheme in order to improve its governance and long term sustainability (for example, value for money guidance, knowledge and understanding guidance).

In addition to outlining the work planned for the year ahead, this paper seeks to outline the budgetary requirements for each area of work planned in order to take these matters forward.

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2. 2015/16 work programme

Task	Description	Delivery
Deficit management	**Background** The Shadow Board commenced its deficit management project in Summer 2014 following a request from the then Minister for Local Government Brandon Lewis that the Board make innovative proposals on this topic. At its December 2014 meeting, the Shadow Board agreed a comprehensive work plan in order to improve the management of Scheme deficits on a lasting basis using best practice from across the pensions landscape. See the SAB's deficit management work programme for details **Anticipated outcomes** The SAB's recommendations are intended to lead to a fundamental development in how the LGPS manages its deficits. Best practice guidance will aid funds in tackling deficits and working with their employers to ensure these are better managed. Recommendations for where intervention may be necessary will seek to ensure that where deficits exist that aren't being managed properly, appropriate steps are taken to make lasting improvements in those minority of funds.	Throughout 2015/16 (see separate deficit work plan for breakdown)
Cost control	**Background** A fundamental aspect of the public service pension scheme reform package implemented in 2014 and 2015 is the need to review the costs of the benefits structures on a periodic basis. Under the LGPS Regulations 2013, the SAB has a statutory function to manage an LGPS-specific process for reviewing the costs of the Scheme. **Plans for 2015/16** To commission a dry-run of the LGPS Future Service Cost (FSC) cost control process based on agreed assumptions in order for the delivery of an accurate baseline of the Scheme's costs. **Anticipated outcomes** The dry run of the cost control process will be vital to obtain an accurate baseline for the LGPS cost control process so that consistent comparisons may be made when the cost control process proper is undertaken for the first time in 2016.	Q2 2015/16

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Knowledge and understanding guidance	**Background** The role of councillors in local decision making is a fundamental part of the LGPS's governance structure and ensures that there is local accountability for the decisions made. In this role, councillors have a stewardship role for the Scheme's assets and their decisions have real consequences for a fund's performance. However, most councillors join pensions committees without a pensions background. The need for guidance to assist members of pensions committees in gaining the requisite knowledge and understanding needed to carry out this role is therefore crucial. **Plans for 2015/16** To utilise available Scheme and legal expertise to draft and publish knowledge and understanding guidance for pensions committee members. This would operate as a standalone resource to complement the training and development already provided by the administering authority. **Anticipated outcomes** A comprehensive piece of guidance will aid the governance of the Scheme by giving officers and councillors a clearer understanding of the knowledge and understanding required by a pensions committee member. In the funds where there are pensions committee members with gaps in their knowledge and understanding, there should be consequential governance improvements.	Q3 2015/16
Separation of lead authority from pension fund	**Background** A frequent point noted in respect of the LGPS's governance arrangements is the fact that in many funds, the lead employing authority is also the administering authority. Concerns are sometimes raised that this could give rise to conflicts of interest within the administering authority and that governance arrangements could be amended to lead to clearer separations between the two sets of responsibilities. **Plans for 2015/16** To research further the desirability of bringing about greater separations between the host authority and the pension fund amongst a spectrum of options that could be adopted. **Anticipated outcomes** A clearer picture should emerge of the further separations that could be considered and the advantages and disadvantages of pursuing any one of them. This would provide the background research for the Secretary of State's consideration as to whether further separations should be put in place, and what would be needed to get us there.	Q3 2015/16

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Value-for-Money guidance	**Background** Previous Government consultations have highlighted the costs of the management and administration of the Scheme in financially straitened times, and in particular, the desire to see more collaboration in the LGPS in order to achieve greater value for money. This is a matter that the Shadow Board feels very strongly about and it hopes to utilise the SAB's unique position within the sector by taking a lead on this issue. **Plans for 2015/16** To publish value for money guidance for funds that will provide a single source of information for funds on the available collaborative opportunities in the LGPS and to outline the principles that could be adopting in achieving greater value for money from investment managers, actuaries, legal advisers, etc. **Anticipated outcomes** On adoption of this guidance, the Scheme will have access to a detailed resource outlining means via which funds can achieve better value for money. In the longer term, this should lead to lasting improvements in the value for money being obtained by funds.	Q3 2015/16
Scheme annual report	**Background** The development of a national report was undertaken by the Shadow Advisory Board at the request of the then Minister with responsibility for the LGPS, Brandon Lewis, and the first report for the 2012/13 Scheme year was published in November 2014. The second report, for the 2013/14 Scheme year, builds on the content of the 2012/13 report and is anticipated to be published in the coming months. **Plans for 2015/16** To compile the 2014/15 report and commence planning for 2015/16. The 2014/15 report will be the first to include a performance measurement framework on a fund-by-fund basis and pilots are planned for the coming months in order to ensure that this works at a practical level. **Anticipated outcomes** Comparable data at a fund level will be a crucial step towards the development of a robust transparent data set for the LGPS as a whole. Gaps in the available data have been noted for years, not least in the Call for Evidence launched by the Government in June 2013. The continuing publication of the national scheme report will lead to fundamental improvements on the available data for the Scheme.	Q4 2015/16

Engagement guidance	**Background** The LGPS in England & Wales is a highly significant institutional investor, with over £190bn in assets at the end of 2013/14. Taken together, the assets of the Scheme give the sector an unusually rich opportunity to improve the value of its investments by pro-actively engaging with the organisations it invests in. However there are a variety of approaches to engagement adopted within individual funds, with some engaging only minimally. **Plans for 2015/16** To publish best-practice engagement guidance that outlines how funds could engage and gives advice as to how to achieve the best value from that engagement. **Anticipated outcomes** Firmer engagement guidance should lead to a more structured approach to engagement by LGPS administering authorities and the encouragement of a collective approach to engaging across the LGPS. Both should lead to better relationships with the companies invested in and improved value for the Scheme as a long-term investor.	Q4 2015/16
Guidance on the Pensions Regulator's code of practice	**Background** From April 2015, The Pensions Regulator will take on its widened remit in the governance and administration of public service pension schemes with its Code of Practice for public service pension schemes becoming effective from that date. **Plans for 2015/16** To publish guidance for administering authorities on how to interpret the Regulator's code for the LGPS. To include guidance on the data requirements of the Regulator, including providing practical assistance with data cleaning and monitoring. **Anticipated outcomes** Guidance should provide for a clear approach for the LGPS in ensuring compliance with the Regulator's code. Practical guidance in respect of data will provide for greater consistency in approach from LGPS administering authorities and lead to cleaner, better maintained data.	Q4 2015/16

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James Aspinall
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6 August 2015

Dear James

Re: Public Service Pensions Governance Reforms

Following on from the work our authorities have undertaken in meeting the statutory deadline of implementing the local pension board and the approval from DCLG to our joint board, I thought it would be useful to set out in one document the governance arrangements of the West Midlands Pension Fund with the Integrated Transport Authority.

The Joint Local Pension Board

Attached for your information is a copy of the Pension Board's Terms of Reference. You will recall that on creating the board, a seat was offered to ITA but declined, that position is currently being held by a Finance Director but I want to assure you that when that position comes up for re-nomination, we will of course come to you for first nomination.
The role of the Local Pension Board is to assist in the good governance of the scheme and to help focus that work we have devised a work program based on the Scheme Advisory Board's Performance and Benchmarking criteria. A copy is enclosed for your records.
As this is a joint board, if there is anything you think should be included in their work for ITA please let me know.

The Pensions Committee

Following delegation from ITA the WMPF Pension Committee is now the decision making body for the ITA pension fund. To assist in our understanding of what that means I have set out below the service areas we believe are covered by this delegation and which now fall as the responsibility of the Pension Committee.

- Management and Administration of the Scheme
- Asset Allocation
- Fund Manager selection
- Provision of administration services
- Appointment of advisors
- Procurement of related services (including, but not limited to, actuarial, legal, custodian)

While the Pension Committee undertake this work, the delegation received to WMPF is not a full delegation, ITA remain the legal entity responsible for the pension fund and any agreements entered into will be in the name of ITA not WMPF. Assets will be held in the name of ITA and there are no staffing implications.

In addition all investment strategy set by the Pension Committee will be done in consultation with ITA's Investment strategy panel (ISP). Indeed, the ISP will put recommendations to the Investment Advisory Sub Committee/Pension Committee.

The Investment Advisory Sub Committee

Pension Committee has delegated to the Investment Advisory Sub Committee a number of key duties

1) To monitor and review investment management functions.
2) To review strategic investment opportunities.
3) To monitor and review portfolio structures.
4) To monitor implementation of investment policy.
5) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisors to the Fund.
6) To monitor investment activity and the performance of the Fund.
7) To oversee the administration and investment management functions of the Fund.

Accounting

WMPF will continue to prepare the ITA Fund's annual report alongside its own. General ledger accounting will be in Centro's Agresso system, with Centro's Finance team taking the lead on preparing the annual statement of accounts, working in close collaboration with WMPF's Finance team. Operation of the ITA Fund's bank account and daily treasury management activities will be carried out by WMPF.

All direct costs will be billed to the ITA Fund; in addition, WMPF will make a recharge for the costs of internal management and administration, currently £150,000. These costs may increase in future, in light of the unitisation strategy now applying to the ITA Fund and the associated complexity.

Annual Report to ITA

In accordance with the terms of the delegation from ITA, we will provide your committee with an annual report on the work of the Fund.

I hope this letter provides you with the assurance that the Fund is operating effectively on behalf of ITA and that our understanding of the delegation is clear.

I would also like to highlight that the Fund has last month, secured the CIPFA accreditation for the Mark of Governance Excellence. We are the first pension fund in the UK, both in the public and private sector, to achieve this accreditation and we are very proud of the work of our officers in meeting this standard.

Should you have any further queries regarding this matter, please do not hesitate to contact me.

Yours Sincerely

Geik Drever
Strategic Director of Pensions

Pension Board Terms of Reference

1. All persons appointed to the Board will adhere to the Committee's Code of Conduct, including the duty to report conflicts and undertake training as required to ensure they meet the legislative requirement to have the knowledge and understanding required of them to undertake their role.

2. While not a formal committee of Council, meetings of the pension board will be formal occasions to be minuted adhering to the due process and rules of procedure so far as such do not make the business of the board unviable. Business to be conducted by the Pension Board shall be noted on a formal Agenda at least five working days in advance of the meeting. Additional business may be added to the Agenda at a later date with the consent of the Chair. Business not noted on the Agenda may only be considered at the meeting if agreed by majority vote. This is to ensure all information is available and has been read and understood by pension board members.

3. The Pensions Board shall meet a minimum of twice yearly on a bi-annual basis. The ability to call additional meetings rests with the board and with pensions committee, such additional meetings to meet the minimum quorum requirement.

4. Persons appointed to the pensions board have the same right of access to information and documents to be considered as elected members as outlined in the The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 and the The Openness of Local Government Bodies Regulations 2014. Save as all other provisions of these regulations do not apply to the pension board.

5. The Pension Board shall have the reporting obligations as set out in the Fund's 'Pension Board Reporting Policy'.

6. The Pension Board shall adhere to the operational policies of the Fund.

Membership

7. The Pensions Board consists of 12 persons made up of 5 employer and 5 member representatives in equal proportion plus 2 Wolverhampton City Council Elected Members. The employer and member representatives will hold the majority.

8. Recruitment to the board will follow the Fund's 'Pension Board recruitment policy'

9. The quorum is 7

10. Substitutions for the Pension Board shall be available by representative group not by individual board member. Substitutions will be sought as part of the appointing process. Where substitutions are required to attend the pension board meetings, formal notice of their attendance should be provided to the Fund at least two working days in advance of the meeting to afford the opportunity of papers to be circulated and read.

11. The term of office for a person appointed to the Pension Board shall be for a period no shorter than one year and no longer than two rotations of nominations or their term of office (where the person is an elected Councillor, whichever is the shortest). Nomination to the Pension Board shall take a 4 year rotation with one third nominations received in year 2 and one third nominations received in year 4, and so on. Such rotation not to fall in the same year as Pension Committee rotation. This is to ensure a consistency of knowledge within the Pension Board and to assist with the development of knowledge and experience.

12. Nominations to the pensions board will be sought from the nominating body group on each occasion as the rotation for appointment arises. Where more than one nomination is received interviews for the vacant position will be held by the Director of Pensions, the Chair of Pensions Committee and one other.

13. Person's appointed to the Pensions Board are expected to make themselves available to attend meetings. Person's appointed who fail to attend 3 or more events (to include meetings and training) will be asked to leave the Board and a replacement sought from their nominating body unless there are exceptional reasons for their failure to attend. Such reasons to be considered by the pensions board.

14. Other than by ceasing to be eligible to sit on the pensions board (to include failure to attend meetings), a person appointed to the pensions board may only be removed from the position during their term of office by majority vote of the pensions board.

15. A person appointed to the pensions board may retire their position at any time. In such cases a nomination will be sought from their nominating body.

Chairing the Board

16. It shall be the first business of the Board at its annual meeting to nominate a Chair and a Vice-Chair for that year

17. In the event of a tie of votes of any business to be conducted, the Chair will have the casting vote. In circumstances where the vote is to

appoint a new Chair, the outgoing Chair will have the casting vote in the event of a tie.

Information

18. Information relating to the work of the pension board (including any relevant minutes) will be published on the fund's website, save where such information is confidential or exempt under Schedule 12A.

19. Information detailing the pensions boards terms of reference shall be published on the fund's website together with the any vacancies as they arise.

WORK PROGRAM OF THE WEST MIDLANDS PENSION FUND LOCAL PENSION BOARD

Role	Area of work	Action	Date
Good Governance			
	Policy review	Monitoring of Fund's policies and working practices with full annual review	July 2015
	Fund Communication	To monitor fund performance on the availability of information and quality of information produced by the Fund	July 2015
	Customer Engagement	Through the review of the customer engagement strategy to include customer journey mapping	January 2016 meeting
	Cost efficient administration and overall VFM fund management	To monitor performance annually	January 2016 meeting
	Internal and external audit	To work with the Fund's compliance team during annual audit in the compilation and presentation of Fund policies and working practices	January 2016 meeting
Fund administration			
	Data Quality	To monitor the quality of data received from employers and suggest ways to improve through working with employers.	Each meeting of pension board

WORK PROGRAM OF THE WEST MIDLANDS PENSION FUND LOCAL PENSION BOARD

Role	Area of work	Action	Date
	Employer covenants	Understanding of the covenant framework and monitor high risk	January 2016 meeting
Investment	Performance	To receive updates on the Fund's performance	January 2016 meeting
	Investment Strategy and Implementation	To receive updates on the Fund's work in this area	January 2016 meeting
Finance	Employer contributions	To monitor performance and suggest ways to improve through working with employers.	January 2016 meeting
	Annual report and accounts	To consider the annual Scheme Advisory Board report following publication of our report and to draw comparisons as areas for proposed improvement. http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report	July 2016

Employers' Briefing Note

Consultation on a Public Sector Exit Payment Cap - closes 27 August

HM Treasury has recently launched a short consultation on capping exit payments to employees leaving the public sector. The proposal is likely to impact future workforce re-structuring exercises - affected employers should consider responding directly by 27 August.

Headline proposal - £95,000 cap on exit payments

The proposed cap would include the cost of providing early access to unreduced pension benefits. LGPS members over age 55 currently have an entitlement to early access unreduced benefits when they are made redundant or leave on grounds of business efficiency.

The consultation suggests that members would still be given the option of early access to unreduced benefits but only to the extent they can be provided within the proposed total cost cap of £95,000. In practice, changes would need to be made to the regulations governing the LGPS to facilitate this, and the consultation also notes that the Government is, in any event, considering further reforms to employer-funded early retirement promises.

It is unclear at this stage exactly how the cap (which would capture both cash sum redundancy payments and the additional cost to employers of early pension payments) will work in practice and how members' pension benefits will be affected. The timing of the consultation does, however, indicate it is something the Government would like to establish as soon as possible – the cap could apply as early as April 2016.

Who is affected?

The cap is intended to apply to central and local government bodies (including district councils, arms-length council operations (ALMOs) and academies). It is not expected to apply to other employers (eg, colleges, universities, charities, community admission bodies) but there is some uncertainty, particularly around the extent it could be applied to contractors and TUPE-protected rights. Even where it does not apply directly, employers are expected to set their own exit cap mechanism.

It will be possible to "waive" the cap in exceptional circumstances, but details of exit payments and any wavers will need to be published annually. Details of the waiver process are limited but, as a default, it is expected that waiver would require Full Council approval.

Fund early retirement strain costs

Recent Fund experience is similar to the LGPS as a whole.

- Over the last four years, the Fund has paid unreduced early retirement pensions to just over 2,350 members.
- The total funding strain associated with these pensions and charged to employers was £8.5 million.
- In around 3% of cases, the pension strain cost alone would have exceeded the proposed cap, with costs in these cases making up around 15% of the total funding costs.

What the proposed cap could mean for pension benefits

Pension benefits of older, longer serving staff (and not necessarily just those on the highest pay) are likely to be restricted if the cap is implemented at the level proposed.

For example (as a rough guide based on illustrative figures provided to the Fund and allowing for an element of redundancy payment equal to the current maximum statutory redundancy pay of £14,250), the following members' pension options could be restricted by the cap in the event they are offered exit benefits including retirement benefits paid ten years' early:

- 20 years' service and final pay above £45,000; or
- 40 years' service and final pay above £25,000.

If benefits are paid five years' early, the cap would impact members on broadly double the level of pay (eg, a member with 20 years' service and final pay of £90,000). Please note that the impact on individual members will vary considerably based on their individual circumstances.

There is likely to be some uncertainty on the level of benefits members will be able to draw from the Fund as it will depend on other elements of the exit package. It is unclear how the LGPS regulations could be changed to facilitate the cap (and interaction between the various exit payments) or how retirement benefit costs should be measured to ensure consistency between funds and the LGPS and other public sector schemes. For the Fund, the administrative burden could increase substantially.

Wider implications for employers

We anticipate the introduction of the cap could have much wider HR implications. At a time when councils are looking to identify and implement cost-saving initiatives, a valuable tool, historically used to facilitate headcount reduction, will be restricted. This could lead to sub-optimal workforce restructuring and undermine longer term succession planning.

In our view, the cap could prove to be counter-productive with the potential for an unintended impact on recruitment and retention in the future.

Responding to the consultation

The consultation closes on 27 August. Details of how you can respond on the pension and wider implications can be found on page 5 of the consultation.

The Fund would prefer pension cost control to be driven by changes to the LGPS benefit regulations. This would avoid the additional administrative burden and complexity of operating the cap (including an estimated value of pension benefits) across multiple sources of exit payment. It would also give members greater clarity of their pension benefits and avoid the potential disconnect between emerging benefit entitlements and payments to the Fund to meet the cost.

Please let us know if there is any further information you would like from the Fund to assist your consideration and response as a participating employer. As an LGPS fund, we are sharing our views on the pension aspects with the LGA, who are preparing a response on behalf of the local government sector.

Further Information Available to Employers and Members

Further information can be found on the Fund's website at wmpfonline.com

The website can also be used to provide information to members or as signposting for them to access information about the new scheme.

We always welcome feedback on our services, if you would like to make any further suggestions for improvement, please email:

Victoria Bennett Events Co-ordinator
victoria.bennett@wolverhampton.gov.uk

Simon Taylor Head of Pensions Administration
simon.taylor2@wolverhampton.gov.uk

Website: wmpfonline.com
Web portal: https://portal.wmpfonline.com/UPMWebApp/home.page

Employer helpline: 0300 111 6516
Email: wmpfemployerliaison2@wolverhampton.gov.uk

Agenda Item No: **8**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

23 September 2015

Report title	SIAB Annual Review	
Originating service	Pension Services	
Accountable employee(s)	Mark Chaloner Tel Email	Assistant Director, Investments 01902 552094 mark.chaloner@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

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Recommendation(s) for action or decision:

The Committee is recommended to:

1. Make the following benchmark changes
   a) For private equity, to the FTSE All World plus 2% per annum (from the FTSE All World).
   b) For emerging market debt, to a 50/50 combination of the JP Morgan EMBI Global Diversified index and the JP Morgan GBI EM Global Diversified index (from the JP Morgan EMBI Global Diversified index).
   c) For indirect property, to CPI plus 6% per annum (from the IPD UK annual property benchmark).
   d) For real assets and infrastructure, to CPI plus 4% per annum (from one month £ LIBOR).
   e) For absolute return, to one month LIBOR plus 3% per annum for insurance linked and 4% per annum from special opportunities (from one month £ LIBOR).

2. Agree that the SIAB allocation to cash is increased to 2% from 1% with a corresponding decrease in the allocation to conventional gilts from 3% to 2%.

Recommendations for noting:

The Committee is asked to note:

1. The annual SIAB review by Hymans Robertson.

1.0 Purpose

1.1 To review the Fund's investment strategy.

2.0 Background

2.1 The Fund's SIAB is reviewed annually and this year's review focusses on benchmarks and performance targets. The proposals contained in this note have been considered by the Investment Advisory Panel (IAP) at its meeting on 20 July 2015 and a detailed review by Hymans Robertson, the Fund's investment consultant, is attached in Appendix B.

2.2 Ahead of the 2016 Actuarial Valuation, it is proposed that the Fund continues to have a 90 / 10 allocation to growth and stabilising assets. At this stage no major changes are proposed in asset allocation other than to the allocations in cash and conventional gilts (as covered in 4.8 below).

3.0 Benchmarks and performance targets

3.1 Benchmarks are designed to define the target returns expected from a given portfolio segment and help in the assessment of whether a given strategy is appropriate for its intended purpose. They are also used as comparators to test the performances of investment managers. The Fund's SIAB should be capable of generating returns which, with the agreed contribution strategy, will meet the stated funding objective.

3.2 Performance targets are set for portfolio segments and / or mandates so that a return ahead of a given benchmark can be delivered. Such targets are set up for actively managed mandates in liquid asset classes where the prospect of value added is realistic (such as quoted global equities). In other areas, passive index tracking management is deployed. In many areas, alternative investments in particular, the absence of a suitable market index means that benchmarks are set with a target return derived from cash or inflation plus a premium. In such cases, no value added above the benchmark will be targeted.

3.3 In WMPF's case, outperformance of 1.0% per annum over rolling three year periods is targeted over the customised benchmark for the Fund (a composite of benchmarks for individual portfolios). This will be challenging for the Fund consistently to deliver.

4.0 Review of asset classes and proposed changes

4.1 **Quoted equities**. Hymans Robertson conducted a detailed review of the Fund's quoted equities allocation in 2014. Earlier this year, a major reorganisation of the Fund's regional quoted equities allocations was carried out and a new in-house active global equities mandate was set up. The benchmarks used in the part of this portfolio are the relevant FTSE stock market indices and it is not proposed that any of them are changed. Performance targets for emerging markets equities (at 3% per annum over the benchmark) and global equities (2%) will also be maintained. Hymans Robertson's suggestion that the performance of the Fund's quoted equities should be monitored against the FTSE All World index is a fair one and this will be done annually with the review of the Fund's performance for the financial year.

4.2 **Private equity**. The Fund currently has the FTSE All World index as the benchmark for this portfolio, reflecting its broadly based international exposure. The target return for this portfolio is 4% per annum over the benchmark. Half of that reflects the illiquidity premium expected and half the contribution from active management. It is proposed that in future, the benchmark is modified to include the 2% illiquidity premium – so that it will be the FTSE All World plus 2% per annum – with a further 2% performance target (from active management).

4.3 **Fixed interest**. For **the stabilising segment**, FTSE gilts indices are used for this segment and no changes are proposed. These allocations will continue to be managed passively. For cash, the current benchmark, one week £ LIBID, remains appropriate For **the return seeking segment**, the one change proposed at this stage is a revision to the emerging markets debt (EMD) benchmark. The current benchmark (the JP Morgan EMBI Global Diversified index) is based on US dollar sovereign bonds only. In recent years the EMD universe has changed to include local currency and corporate bond issues. Looking ahead, it is important for the Fund to have exposure across a wide range of EMD markets, including local currency issues. Accordingly it is proposed that the EMD benchmark is modified to a 50/50 blend of the JP Morgan EMBI Global Diversified index (the existing benchmark) and the JP Morgan GBI-EM Global Diversified index (which is a local currency index). The performance target should remain at 3% per annum ahead of the benchmark. Pending the reorganisation of the return seeking fixed interest portfolio with a new multi credit strategy mandate, it is not proposed that any changes are made to the corporate bond and other fixed interest benchmarks.

4.4 For **the cashflow matching allocation** in respect of orphan liabilities, it is proposed that a benchmark of the FTSE UK gilts all stocks index plus 1.4% per annum is adopted, in line with the required return for this segment (as advised by Mercer). This allocation will be set up with effect from 1 October 2015.

4.5 **Alternative investments**. For **the directly managed property portfolio**, it is proposed that the benchmark remains the IPD UK annual property benchmark (with IPD's quarterly property index used for quarterly performance monitoring). A 1% per annum performance target was agreed with CBRE with the commencement of its revised mandate in October 2014 and no change is proposed. Following discussions with the IAP and Hymans Robertson, it is proposed that the benchmark for **the indirect property portfolio** is modified to CPI plus 6% per annum. An inflation linked target is appropriate for this segment along with a premium to reflect its illiquidity and risk characteristics.

4.6 For **real assets and infrastructure**, the current benchmark – one month £ LIBOR – is clearly not appropriate. By investing in these areas, the Fund is looking for an inflation linked return plus a premium similar to that available from quoted equities. Accordingly it is proposed that the benchmark is changed to CPI plus 4% per annum.

4.7 In **the absolute return segment**, there are two components, insurance linked and special opportunities. Currently these are benchmarked against one month £ LIBOR and it is proposed that the benchmark is modified to include a premium of 3% per annum for insurance linked and 4% per annum for special opportunities, as recommended by both the IAP and Hymans Robertson.

4.8 **SIAB allocation change**. The Fund's allocation to cash has been running at higher levels – typically 5%- than the SIAB allocation at 1%. With major portfolio reorganisations, distributions and net contribution inflows, cash inflows have been strong. In recent months, investments have been made in quoted equities during periods of market weakness and selectively in other areas. There are plans to invest capital during the final quarter of 2015, too. To allow for greater flexibility in the future, it is proposed that the SIAB allocation to cash is increased to 2% from 1% and the allocation to conventional gilts is correspondingly reduced to 2% from 3%.

4.9 **Timing**. It is proposed that all of the proposed changes are made with effect from 1 October 2015.

4.10 A table setting out the proposed SIAB, benchmarks and performance targets is set out in Appendix A.

5.0 Financial implications

5.1 These are detailed throughout the report.

6.0 Legal implications

6.1 This report contains no direct legal implications.

7.0 Equalities implications

7.1 This report contains no equal opportunities implications.

8.0 Environmental implications

8.1 This report contains no environmental implications.

9.0 Human resources implications

9.1 This report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 None

12.0 Schedule of Appendices

12.1 Appendix A - Proposed SIAB, benchmarks and performance targets.

12.2 Appendix B - SIAB Annual Review by Hymans Robertson.

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Proposed SIAB, Benchmarks and Performance Targets				
		SIAB %	**Benchmark**	**Performance target % pa**
Equities Quoted Equities				
	UK	8.0	FTSE All Share	0.0
	Continental Europe	7.5	FTSE All Europe ex UK	0.0
	North America	7.5	FTSE North America	0.0
	Japan	3.75	FTSE Japan	0.0
	Pacific Basin	3.75	FTSE Developed Asia ex Japan	0.0
	Emerging Markets	7.5	FTSE Emerging Markets	3.0
	Global	10.0	FTSE All World	2.0
		48.0		
Unquoted Equities		10.0	FTSE All World + 2 % pa	2.0
Total Equities		**58.0**		
Fixed Interest				
Stabilising Fixed Interest				
	Index linked Gilts	5.0	FTSE UK Gilts I/L All Stocks	0.0
	Conventional Gilts	2.0	FTSE UK Gilts All Stocks	0.0
	Liquid Assets	2.0	1 week £ LIBID	0.0
		9.0		
Cashflow Matching Fixed Interest		3.0	UK Gilts + 1.4% pa	n/a
		3.0		
Return Seeking Fixed Interest				
	Corporate Bonds	2.5	Merrill Lynch £ Non Gilt All Stocks	1.0
	Other fixed interest	2.0	Merrill Lynch £ Non Gilt All Stocks	2.5
	Emerging Market Debt	2.5	50% JP Morgan EMBI Global Diversified 50% JP Morgan GBI EM Global Diversified	3.0
		7.0		
Total Fixed Interest		**19.0**		
Alternatives				
Property				
	Direct	7.0	IPD UK Annual	1.0
	Indirect	3.0	CPI + 6% pa	0.0
		10.0		
Real Assets and Infrastructure		6.0	CPI + 4% pa	0.0
		6.0		
Absolute return				
	Insurance linked	3.0	1 month LIBOR + 3% pa	0.0
	Special Opportunities	4.0	1 month LIBOR + 4% pa	0.0
		7.0		
Total Alternatives		**23.0**		
	Total	**100.0**		

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HYMANS ROBERTSON

WEST MIDLANDS PENSION FUND

SIAB ANNUAL REVIEW
September 2015

Graeme Johnston
Partner

William Marshall
Partner

For and on behalf of Hymans Robertson LLP

Contents

Annual Review of SIAB

Addressee

This paper is addressed to the Pension Committee ("the Committee") of the West Midlands Pension Fund ("the Fund"). It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report should only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

1 Executive summary

Introduction

This paper reviews the Fund's investment objectives and benchmarks, both at a total Fund and individual asset class level. An earlier draft was made available to the Fund's Investment Advisory Panel (IAP) and the current report reflects our understanding of the recommendations made at the IAP's meeting of 20 July 2015.

We look forward to discussing this paper with you at your September meeting.

Key points

- **Benchmarks are an important part of an overall investment strategy in that they help to define the nature of the return (and risk) expected from an investment and help in the assessment of whether a strategy is appropriate for the purpose intended. The Fund's SIAB should be capable of generating returns that, in conjunction with the contribution strategy, will meet the stated funding objectives.**
- **We have updated some of the modelling work done as at the Fund's Valuation of 31 March 2013 and the median 20-year return on assets in these latest projections is around 4% p.a. above CPI inflation. We have no reason to change the view that the current SIAB is appropriate. A more comprehensive update should be carried out in conjunction with the forthcoming Valuation as at 31 March 2016.**
- **Benchmarks are also used to test the performance of an asset class or particular fund manager. In this respect, they are often associated with a performance target, which quantifies expectations about the extent to which actual returns should exceed the benchmark ("beat the market").**
- **For the Fund, anyreturns in excess of the benchmark are intended to reduce the level of expected contributions, rather than representing an essential component of the funding strategy.**
- **Tables 1-3 at the end of this section show the benchmarks and performance targets resulting from proposals in this paper, together with the IAP's recommendations. In many cases, these are in line with the current approach. Where a change is suggested the current position is shown in brackets.**
- **The main changes relate to alternative assets, where the absence of suitable market indices often means that benchmarks are based on cash returns or inflation. Here, we have been keen to ensure that an appropriate premium over the base return is incorporated in the benchmark rather than simply allocated as a performance target.**
- **For some alternative asset classes, no performance target is specified. This reflects the fact that the benchmark is not based on a market index, and so the contribution from active managers is hard to determine.**
- **We provide further comments on each element of the Fund, including our recommendations for change/review, at the end of the report.**

Table 1: Equities

	Benchmark	Performance target (% p.a.)
Quoted	***FTSE All World***	
UK	FTSE All Share	0.0
Continental Europe	FTSE All World Europe ex UK	0.0
North America	FTSE North America	0.0
Japan	FTSE Japan	0.0
Pacific Basin	FTSE Developed Asia Pacific ex Japan	0.0
Emerging Markets	FTSE Emerging Markets	+3.0
Global	FTSE All World	+2.0*
Unquoted	***FTSE All World + 2% p.a.*** (FTSE All World)	***+2.0*** (+4.0)

* To be reviewed as part of broader portfolio restructuring

Table 2: Fixed interest

	Benchmark	Performance target (% p.a.)
Stabilising		
Index Linked Gilts	FTSE UK Gilts Indexed All Stocks	0.0
Conventional Gilts	FTSE UK Gilts All Stocks	0.0
Liquid assets	1-week £ LIBID	0.0
Return Seeking		
Corporate Bonds*	Merrill Lynch £ Non-Gilts All Stocks	+1.0
Other fixed interest*	Merrill Lynch £ Non-Gilts All Stocks	+2.5
Emerging Market Debt	50% JP Morgan EMBI Global Diversified 50% JP Morgan GBI-EM Global Diversified *(JP Morgan EMBI Global Diversified)*	+3.0

* To be reviewed as part of broader portfolio restructuring

Table 3: Alternatives

	Benchmark	Performance target (% p.a.)
Property		
Direct	IPD UK Annual Property Benchmark	+1.0
Indirect	CPI + 6% p.a. *(IPD UK Annual Property Benchmark)*	*(+1.0)*
Real assets & infrastructure		
Infrastructure	CPI + 4% p.a. *(1 month £ LIBOR)*	*(+4.0)*
Real assets	CPI + 4% p.a. *(1 month £ LIBOR)*	*(+4.0)*
Absolute Return		
Insurance-linked	1-month £ LIBOR +3% p.a. *(1 month £ LIBOR)*	*(+3.0)*
Special opportunities *	1-month £ LIBOR +4% p.a. *(1 month £ LIBOR)*	*(+4.0)*

* To be kept under review as portfolio evolves

2 Background

SIAB Review

The Fund's Strategic Investment Allocation Benchmark ("SIAB") is reviewed on an annual basis. The general aims of the annual review are

- to analyse the sources of risk in the portfolio; and
- to suggest potential opportunities to improve the SIAB or its implementation.

This year, the review focuses on the Fund's investment objectives and benchmarks both at total Fund and at individual asset class level. In what follows, therefore, we do not propose any changes to the SIAB.

Benchmarks

A benchmark is a standard against which performance of a fund, a portfolio or another benchmark is compared. Most benchmarks are based on either market indices or peer group performance. Other types of benchmark are encountered, most commonly in alternative asset classes, where neither indices nor peer group results are readily available. These are typically expressed as premiums over cash or inflation – intended to describe the long-term returns expected rather than short- or medium-term patterns of performance.

All of the types of benchmarks mentioned are currently used in the SIAB. Our general view is that indices are preferable to peer groups, although the overriding consideration is that the benchmark should be suitable for the purpose employed. Where some compromise has to be made in benchmark selection, particular care has to be taken in the interpretation of returns. If, for example, an index based on listed assets is used as a benchmark for unlisted investments, the short-term performance of the benchmark is likely to be more volatile than that of the investments. Where a cash-based benchmark is used, it will not capture the medium-term trends in the asset class.

Benchmarks can be used in various contexts. We distinguish a few of the possibilities in what follows:

- At a **strategic** level, benchmarks can define the nature of the return and/or risk expected. So, for example, a broadly-based global index, such as the FTSE All-World Index, would be a suitable strategic benchmark for a global equity exposure.
- Benchmarks can define the **structure** of the intended investment in, say, a particular asset class. Thus, we would describe the SIAB's current aggregate equity benchmark – a combination of regional equity indices weighted by the target exposures to each region – as structural.
- Benchmarks can be **portfolio-specific** – used to test the performance of a particular manager. In this case, a **performance target**, a minimum level by which the manager is expected to outperform the benchmark over the long term, will also usually be specified.

It is not always necessary or desirable to allocate each type of benchmark to every part of the portfolio. There are occasions where the same benchmark would apply for different purposes (i.e. strategic, structural and portfolio-specific). However, there are also occasions where it is appropriate to apply different benchmarks to the same portfolio for different purposes. This can help to separate contributions to performance made by different people or resulting from different decisions. For example:

- In segregated mandates, where the Fund can influence investment policy, the portfolio-specific benchmark will often match the relevant part of a structural benchmark.
- In pooled funds, where the investment strategy is determined by the manager, the portfolio-specific benchmark will often be the one used by the manager.

- In the definition of the SIAB and its components, benchmarks will tend to be strategic or structural in nature.
- In any individual asset category, the benchmark applied to a particular portfolio need not match the benchmark applied to the SIAB. It may also be the case that the portfolio-benchmarks in aggregate do not match the SIAB benchmark. This can be perfectly acceptable. The practical implementation of exposure to an asset class may involve some compromise; there may be a deliberate decision to exploit a particular opportunity within an asset class. Any performance differences that arise should be viewed as a contribution to performance from in-house decisions.

Throughout the report, we will highlight areas where different benchmarks might apply and the potential benefits of analysing the different contributions to performance.

We also note that there will be a contribution to performance arising from the fact that the SIAB is a target and the actual Fund allocation will diverge. Under current governance arrangements, the Fund does not take tactical views relative to the SIAB and so this contribution would be expected to be relatively small, reflecting fluctuations caused by market movements. However, the Fund is undergoing some significant restructuring, some of which may extend over a long period. In current circumstances, therefore, the performance contribution from the divergence between the SIAB and the Fund allocation may not be trivial.

Types of benchmark

Generally, suitable market indices (or appropriate combinations) make for the best benchmarks. For alternative asset classes, in particular, such indices are not always available.

Our preference is then to search for a related index and, if necessary, make adjustments to reflect any systematic differences between the portfolio investments and the universe represented by the index. The approach proposed later for Unquoted equities is an example.

Another approach is to use a proxy for the long-term return expected from the asset class, usually expressed as a premium over either inflation or cash returns, as a benchmark. This is the approach preferred by the IAP for indirect property, infrastructure and insurance-linked and we are satisfied that it is appropriate. We therefore make no further comment on the index-based approaches that might have been considered. However, it is important to note that there will be little useful information to be derived from short- and medium-term performance relative to inflation- and cash-based benchmarks.

Performance targets

For some asset classes, there is a choice between active and passive management; for others, active management is the only option. Nevertheless, whenever portfolios are actively managed, there will generally be an expectation that the manager will deliver performance in excess of the underlying market return (so-called ‘alpha’). The latest performance targets for different asset classes are shown in Table 4 below.

Where the targets are zero, the portfolios are passively managed or, in the case of Liquid Assets, we would view the taking of additional risk as inappropriate.

Table 4: Current performance targets

EQUITIES	% p.a.	FIXED INTEREST	% p.a.	ALTERNATIVES	% p.a.
Quoted		***Stabilising***		***Property***	
UK	0.0	Index Linked Gilts	0.0	Direct	1.0
Continental Europe	0.0	Conventional Gilts	0.0	Indirect	1.0
North America	0.0	Liquid assets	0.0		
Japan	0.0	***Return Seeking***		***Real assets & infrastructure***	***4.0***
Pacific Basin	0.0	Corporate Bonds/Other	1.0		
Emerging Markets	3.0	Other fixed interest	2.5	***Absolute Return***	
Global	2.0	Emerging Market Debt	3.0	Insurance-linked	3.0
Unquoted	***4.0***			Special opportunities *	4.0

Where there are non-zero performance targets, we make some specific comments in section 3. This is mainly in respect of the more traditional asset classes, where the number of portfolios is smaller and there is a typical ‘industry-standard’ range of performance targets. It is also easier to specify a performance target when the actual returns from a portfolio or asset class can be tested against the underlying return on a suitable index.

The key principle is that the performance target should broadly reflect the nature of the investments selected rather than some predetermined number. That said, we would view a target in excess of 2-3% p.a. ahead of the benchmark across an asset class as a whole as representing a relatively high-risk approach to implementation. That may be perfectly acceptable, but it should certainly be deliberate.

For alternative asset classes, there may be no index available or it may be decided to adopt a non-index benchmark. In these cases, we think the most important thing is that the chosen benchmark should reflect expectations about the overall return expected from the asset class. It is more difficult to unbundle this overall return into an underlying market return and a return to manager skill (and the cost of fees as, in many cases returns on alternative investments are calculated net of fees, in contrast to the usual practice for traditional asset classes.) For the following asset classes, we have not attempted to make this distinction and suggest no specific performance target for Indirect property, Infrastructure, Real assets, Insurance-linked or Special opportunities.

However, it should be understood that the actual returns generated will include some contribution from the success or failure of the chosen managers. Generally, we think it is right to be cautious about the achievement of performance targets. They should certainly be seen as a guide to the riskiness of portfolios and the extent to which short-term returns might diverge from the benchmark. They should also reflect the genuine aspirations of the Fund and managers. But the returns implied by the targets should be seen as less reliable than the market returns implied by the SIAB benchmarks.

This view is reflected in the Fund’s investment strategy. It is intended that the SIAB should deliver sufficient return (before any alpha contribution) in conjunction with the contribution strategy to meet the Fund’s objectives. Any returns from above-benchmark performance were intended to be used to reduce contribution levels. For this reason, we think it is important to distinguish between the returns expected from investing in markets and the returns expected from manager skill. This is relatively straightforward for traditional asset classes, where suitable indices or well-established peer group returns are available. For some alternative asset classes, where establishing a suitable benchmark is more difficult, it has to be done approximately.

3 Fund benchmarks

Total Fund

The SIAB as at 30 June 2015 is set out in table 5 below. The benchmark for the SIAB is simply the average of the benchmarks for the constituent asset classes weighted by their strategic allocations. The asset class benchmarks are considered later in this section and so the suitability of the SIAB benchmark relates to the weights used. We have always emphasised in our reviews that the key question is whether the SIAB reflects an investment strategy that, in conjunction with the contribution strategy, is consistent with the objectives of the Fund? We discuss this below.

Table 5: Current SIAB allocation

EQUITIES	%	FIXED INTEREST *	%	ALTERNATIVES	%
Quoted	***48.0***	***Stabilising***	***10.0***	***Property***	***10.0***
UK	8.0	Index Linked Gilts	6.0	Direct	7.0
Continental Europe	7.5	Conventional Gilts	3.0	Indirect	3.0
North America	7.5	Liquid assets	1.0		
Japan	3.75			***Real assets & infrastructure***	***6.0***
Pacific Basin	3.75	***Return Seeking***	***9.0***		
Emerging Markets	7.5	Corporate Bonds/Other	5.5	***Absolute Return***	***7.0***
Global	10.0	Emerging Market Debt	3.5		
Unquoted	***10.0***				

The investment strategy was the subject of the review carried out last year and summarised in a paper, ***Main Fund: 2014 investment strategy review***, which was presented to the Committee on 25 June 2014. The investment strategy review confirmed that the high-level investment strategy was appropriate for the Fund's funding objective in current circumstances.

The position will next be reviewed in detail in conjunction with the Fund's next valuation as at 31 March 2016. In the meantime, we have updated the results of the earlier review, rolling forward the liability cash flows, reflecting recent changes to the SIAB and market conditions. We summarise some of the answers to key questions in table 6 below, which shows comparable numbers from the earlier review in brackets.

Table 6: Funding level analysis

	Mar 2015	*Mar 2013*
Starting funding level	**62%**	*(70%)*
What is the probability of reaching 100% funding by 2025?	**50%**	*(58%)*
What is the probability of reaching 100% funding by 2035?	**76%**	*(80%)*
In which year is the median projected funding level 100%?	**2025**	*(2023)*
What is the average of the worst 5% of projected funding levels in 3 years' time?	**44%**	*(47%)*

All of the measures used are based on a valuation using a discount rate of 1.4% p.a. above gilt yields, comparable to the basis used by the Actuary in the March 2013 valuation. The details underlying the modelling, including the returns and volatilities assumed, are included in the Appendix.

In all cases, the position has deteriorated a little since 2013. This reflects a lower starting funding level, which in turn reflects the lower level of long-dated real yields on index-linked gilts. However, the change would not, in our view, be sufficient to invalidate the view that the current investment strategy is appropriate. The probability of reaching 100% funding in the years between 2025 and 2035 is an important consideration here.

The median 20-year nominal return on assets in these latest projections is 5.6% p.a., which compares with the median projection of 1.4% p.a. for CPI inflation. A return of more than 4% p.a. ahead of CPI represents a higher level of investment risk than assumed in the GAD costings of the LGPS (and therefore higher than might be seen as necessary over the long term). It is, however, consistent with the fact that the Fund is currently in deficit. One of the issues that we believe should be addressed at the next Valuation is how and when the SIAB should be adapted to reflect improvements in funding levels.

We note that our return projections are generally well below the original target of the SIAB – to deliver nominal returns of 7-8% p.a. In an era of low interest rates and gilt yields, we believe it is over optimistic to expect that level of return. More generally, we think it is more appropriate to think in terms of returns in excess of inflation, reflecting the inflation-linkage of benefit payments, and to set the target return in conjunction with the contribution strategy.

The analysis undertaken for this report did not include an assessment of whether the current strategy is optimal. However, we do recommend that the comparison with alternative strategies, planning for the possibility of reducing investment risk and differentiating strategies across employers are all considered as part of the valuation process as at March 2016.

Quoted equities

The current benchmarks for individual portfolios are as follows:

Europe	**FTSE All World Europe ex UK**
Japan	**FTSE Japan**
Pacific Basin	**FTSE Developed Asia Pacific ex Japan**
UK	**FTSE All Share**
US	**FTSE North America**
Global	**FTSE All World**
Emerging Markets	**FTSE Emerging Markets**

- FTSE provides a consistent series of broadly-based indices – the best approach for strategic and structural purposes. There is no particular reason to prefer the MSCI series, which represents the main alternative seen in practice.
- We would suggest that the FTSE All World Index should be viewed as an overall guide to the success of the global equity strategy, as it represents a broad exposure that could be implemented cheaply with minimal governance. In practice it would be used simply to monitor the performance of the actual SIAB benchmark (described below) over the long term.

- The aggregate SIAB benchmark for equities is the weighted average of the underlying regional benchmarks. This is, by our definition, structural, representing the result of decisions taken by the IASC. The current weights are broadly in line with the recommendations of the equity portfolio review carried out last year, as reported in the paper, ***Review of listed equity portfolio***, presented to the IASC in September 2014.
- There is a minor overlap between the benchmark for European equities and the benchmark for Emerging Markets – Poland and Hungary are included in both. Using FTSE Developed Europe ex UK would remove the overlap. However, any impact is trivial. In addition, the current European benchmark is the index against which the in-house portfolio is managed. A change of benchmark could therefore result in some modest transaction activity. We understand that the intention is to tolerate the overlap and agree that represents a sensible, pragmatic approach.
- The global equity portfolio in the process of considerable restructuring. The current performance objective (2% p.a. ahead of the benchmark index) is too high for the portfolio as it is currently constituted. We suggest that no immediate change be made to the performance target, but note that the objective should be reviewed as part of the final decision on restructuring.
- We would view the performance objective of the Fund's actively managed Emerging Markets portfolios (3% p.a. ahead of the benchmark index) as challenging over the long-term.

Unquoted equities

The current benchmark is the FTSE All World Index.

- We think that the use of a quoted equity index as a strategic benchmark is the best approach. It reflects the strategic rationale that private equity is an extension of the universe of equity opportunities rather than a significant diversifier.
- A global index reflects the global nature of the Fund's private equity programme. It would be possible to use instead a weighted combination of regional indices that more closely approximates the desired allocation of the private equity portfolio, although we doubt that any improvement in fit between the benchmark and the Fund's investments would be worthwhile.
- The overall return expected from the private equity programme is 4% p.a. higher than the benchmark. This is typical of the level targeted by private equity investors and we see no reason to change it. However, any added value will represent a combination of a return to illiquidity (a strategic decision) and the relative success of the managers and funds selected (alpha).
- It is impossible to analyse the contributions from these two factors precisely, but an approximate solution may be considered by adding a premium of, say, 2% p.a. to the current strategic benchmark. We believe that the IAP also recommends adopting this solution.

Fixed interest

Orphan assets

The portfolio was selected by the Actuary to match liability cash flows as closely as possible rather than deliver a specific level of performance. We understand that the target return is 1.4% p.a. ahead of the return on gilts, but the objective of the portfolio means that it is not appropriate to set a benchmark in the same way as proposed for the rest of the Fund. We therefore make no further comment on this part of the SIAB. .

Stabilising

Current benchmarks for individual portfolios are as follows:

Gilts	**FTSE UK Gilts All Stocks**
Index-linked	**FTSE UK Gilts Indexed All Stocks**
Liquid assets	**1-week £ LIBID**

- The indices selected for these portfolios are suitable.
- The strategic rationale for this part of the SIAB is to provide a portion of the Fund that typically responds in a different way to changing economic circumstances from the return-seeking assets that constitute the bulk of the Fund's portfolio – low-risk assets that provide stability (and a source of funds) in conditions when other assets come under pressure.
- The obvious assets to include in this sort of portfolio are gilts, index-linked gilts and cash, but there is no single objective answer to what constitutes the 'best' stabilising portfolio. Therefore, we do not suggest that a strategic benchmark is required.
- The structural benchmark for the portfolio should reflect what is viewed as the neutral exposure to appropriate assets. The current benchmark effectively reflects the actual Fund holdings when the distinction between the stabilising and return-seeking portfolios was formally recognised after adjustment for the assets subsequently assigned to orphan liabilities.
- Any variation from the neutral position, in terms of portfolio duration, balance between assets or exposure to credit, reflects a contribution to return from in-house decisions.
- The portfolio currently fulfils no specific hedging or matching function. This may change over time, as the portfolio matures or a need for individual employer strategies is recognised. It would, of course, be appropriate to review the aggregate benchmark to reflect any such evolution in the portfolio.

Return-seeking

Current benchmarks for individual portfolios are as follows:

Emerging market debt	**JP Morgan EMBI Global Diversified**
Corporate bonds	**Merrill Lynch £ Non-Gilts All Stocks**
Other fixed interest	**Merrill Lynch £ Non-Gilts All Stocks**

- There is no obvious strategic benchmark covering all of the potential opportunities and, in our view, there is no need to define one. A structural benchmark that reflects target exposures to individual portfolios is what is required.

Emerging market debt

- The benchmark for Emerging Market Debt (EMD) is based on $-denominated sovereign bonds only. However, the EMD universe is increasingly dominated by local currency markets and corporate bonds are also a bigger part of the market now.
- The existing benchmark is only suitable if the allocation to EMD is intended simply to extend the range of credit markets in which the Fund invests or is there also a desire to exploit emerging market currency risk? Only if the former predominates is the existing benchmark suitable.

- We make the assumption that some exposure to emerging market currency is also part of the strategic rationale for investment. It would therefore be appropriate to amend the structural benchmark to an appropriately weighted combination of the existing benchmark and a suitable local currency index, such as the JP Morgan GBI-EM Global Diversified Index.
- We suggest an equal split as a starting point for discussion, but emphasise that the benchmark finally chosen should reflect the nature of the exposure desired.
- A decision to include strategic exposure to local currency EMD could have knock-on effects for the investments made by the Fund. We understand that this is under consideration by the IAP.
- Whatever structural benchmark is chosen for EMD, it may not be appropriate for individual Fund investments. In such cases, the contribution to performance made by managers should be judged relative to suitable portfolio-specific benchmarks. The aggregate performance of the portfolio-specific benchmarks relative to the structural benchmark represents a contribution from in-house decisions.
- The IAP has suggested a reduction in the performance targets for EMD portfolios from 3% p.a. to 2% p.a. ahead of the benchmark index. This seems challenging but reasonable.

Corporate bonds and other fixed interest

- The benchmark for corporate bonds is suitable for a portfolio dominated by investment-grade bonds and we suggest no immediate change.
- The performance target (1% p.a. ahead of benchmark) is stretching for an investment-grade portfolio. Our experience is that managers achieve outperformance more through systematic exposure to higher credit risk than the benchmark than anything else. Our view is that a strategic exposure to investment-grade corporate bonds is best implemented passively. However, we would suggest there is no need to change the target at the moment, as any change would be superseded by a more comprehensive review of the portfolio that is under consideration.
- We have recommended in the past that this portfolio should be effectively combined with Other Fixed Interest and focus instead on opportunities outside the investment-grade universe. If that change is implemented, then the benchmark for corporate bonds should be determined as described later in this section.
- Our view is that the “other fixed interest” portfolio should aim to generate long-term returns similar to equities, primarily through exploiting credit risk. As long as it remains a small part of the return-seeking bond portfolio, the current benchmark, combined with the performance target of 2.5% p.a., provides a suitable overall guide to the sort of returns expected, even if the allocation between strategic decisions and manager performance is not ideal.
- If the existing corporate bond and other fixed interest portfolios are combined into a broader exposure to credit markets, this could encompass a wide range of markets – high yield bonds, syndicated loans, real estate and infrastructure debt, private lending, etc. Not all of this is easily benchmarked. However, we would suggest that a combination of indices covering the most liquid parts of the market, such as Credit Suisse Leveraged Loans Index and the Merrill Lynch Global High Yield Master, would provide a broad guide to expectations of the long-term returns from such a portfolio as well as a shorter-term guide to movements in broader credit markets.
- In such an expanded credit exposure, portfolio-specific benchmarks may be very different from the strategic one chosen, e.g. the portfolio might cover one area of the market only. It is also quite possible that the aggregate of all the portfolio-specific benchmarks would be different from the strategic benchmark. Any performance difference arising could be considered a contribution from in-house decisions.

Property

Direct

- **The current benchmark is the IPD UK Annual Property Benchmark**. (The IPD UK Quarterly Property Index is used for shorter-term performance monitoring).
- The Annual Benchmark serves well as a benchmark for the direct property, as it provides a broad coverage of institutional investment in UK commercial property.
- The performance target for direct property should be aimed at encouraging the manager to add value to a broad exposure to core UK commercial property. The current level (1% p.a. ahead of benchmark) seems reasonable.

Indirect

- **Currently, the indirect portfolio has the same benchmark as the direct portfolio**. This would be consistent with a view that the indirect property holdings are alternatives to additional direct UK property exposure.
- We understand that the IAP wishes to treat them as simply another alternative asset class and proposes an overall return of CPI + 6% p.a. as a benchmark.
- The proposed benchmark reflects the rationale that the investment in indirect property is intended to produce sterling returns in excess of inflation over the long term.
- We have not analysed the individual holdings, but note that the high level of the premium over CPI proposed suggests that the portfolio is relatively risky. In part, this reflects the inherent illiquidity of the holdings.

Real assets & Infrastructure

Infrastructure

The current benchmark is 1-month £ LIBOR.

- The current benchmark is not suitable. At the very least, a strategic benchmark for infrastructure should incorporate a premium as well. A level of 2% p.a. would be consistent with the idea that the Fund was seeking returns similar to, but perhaps a little lower than returns from equities.
- However, infrastructure is often predicated on some long-term return above inflation. We agree with the IAP's proposal to use an inflation-based benchmark of CPI + 4% p.a.

Real assets

The current benchmark is 1-month £ LIBOR.

- Here, too, the benchmark should be replaced. Similar arguments apply as applied to infrastructure and we are satisfied with the IAP's proposal to adopt the same long-term strategic benchmark of CPI +4% p.a. would be more appropriate than a cash-based benchmark.

Absolute return

Insurance-linked

The current benchmark is 1-month £ LIBOR.

- As with Infrastructure, the minimum change that should be made to for a strategic benchmark is the addition of a premium.
- The nature of the investments means that a CPI-based benchmark is not appropriate.
- We understand that the IAP is recommending a target of LIBOR +3% p.a. and believe this to be appropriate.

Special opportunities

The current benchmark is 1-month £ LIBOR.

- Investment here is opportunistic and potentially very diverse. The simple addition of an appropriate premium to the existing cash benchmark is all that we would suggest here.
- We understand that the IAP proposes that a premium of 4% p.a. be used and think this is reasonable in relation to the portfolio as currently structured. However, it should be noted that the current portfolio contains some legacy assets that would probably not now qualify as “special opportunities".
- The target returns of opportunities considered in the future are likely to vary widely and each investment should be tested against its own target. We therefore suggest that the benchmark premium over cash should be kept under review as the portfolio evolves to ensure that it continues to reflect the returns expected from the opportunities selected.

4 Recommendations

We summarise below the areas where we think a change to or review of current benchmarks or performance targets is appropriate.

Total Fund

- Comparison with alternative strategies, planning for the possibility of reducing investment risk and different employer strategies should all be considered as part of the valuation process as at March 2016.

Quoted equities

- The performance of the Fund's benchmark for quoted equities should be monitored against the FTSE All World index over the long term to assess the effect of the chosen regional allocation.
- The slight overlap between the European and Emerging Markets benchmarks should be noted, but it is reasonable to tolerate it.
- The performance target for the Fund's global equity portfolio should be reviewed as part of the broader review of the structure of the portfolio.

Unquoted equities

- A premium of 2% p.a. should be added to the benchmark to reflect a strategic return expected from accepting the illiquidity involved in unquoted investment. A performance target of 2% p.a. (in addition to the 2% illiquidity premium) would reflect the target level of "alpha" from this investment.

Fixed income – return-seeking

- The benchmark should be amended to include an allocation to local currency markets. We suggest an equal weighting to hard currency and local currency markets, but the eventual choice should reflect the strategic rationale for investment in Emerging Market Debt (EMD).
- The benchmark for Other Fixed Interest should be reviewed as part of the broader review of the structure of the portfolio.

Indirect property

- A benchmark expressed as a premium over inflation should be adopted. The proposed premium of 6% p.a. should be interpreted as an indication that the portfolio is relatively risky, in part because of the illiquidity of the holdings.

Infrastructure

- The change to a benchmark of CPI + 4% p.a. recommended by the IAP should be accepted.

Real assets

- The benchmark should be changed to CPI + 4% p.a.

Insurance-linked

- The IAP's suggestion of LIBOR + 3% p.a. seems suitable as an overall return expectation.

Special opportunities

- A benchmark of LIBOR + 4% p.a. seems appropriate for the current portfolio to reflect the inclusion of some legacy assets. The 4% p.a. premium should be kept under review as the portfolio evolves to reflect future investments specifically selected as "special opportunities".

Appendix – Reliance and Limitations

Cash flows

In projecting forward the evolution of the Scheme, we have used estimated cash flows generated using our actuarial valuation system, based on membership data, assumptions and benefit summary provided by the Actuary, Paul Middleman FIA of Mercer. The data, assumptions and benefit strategy underlying the cash flows is broadly the same as that which applied in the preliminary results of the 2013 actuarial valuation of the Scheme (full details are available from Mercer on request).

We have relied on the accuracy of the data, email correspondence and documents provided by the Actuary.

We have estimated future service benefit cash flows and projected salary roll for new entrants after the valuation date such that target payroll over the long term trends to 80% of starting payroll (i.e. replacement of leavers over the long term results in payroll reducing to 80% of starting payroll). The new entrants joining are assumed to have a 'triangular' distribution between ages 25 and 64 with a (salary-weighted) mode at the average age of new entrants over the past three years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. Nonetheless, we believe that this assumption is reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants. Where the Fund subscribes to Club Vita, new entrant mortality is assumed to be in line with an average of individual Vita Curves.

There are a number of different types of increases applied before and after retirement to benefits payable from the Scheme. We have made some simplifying assumptions when modelling the various types of increases.

As with all modelling, the results are dependent on the model itself, the calibration of the model and the various approximations and estimations used. These processes involve an element of subjectivity. No inferences should be drawn from the modelling results other than those confirmed by us in writing.

Asset Liability Model

Except where stated, we do not allow for any variation in actual experience away from the demographic assumptions underlying the cash flows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates, yield curves and asset class returns. Cash flows into and out of the Scheme are projected forward in annual increments and are assumed to occur in the middle of each Scheme year. Investment strategies are assumed to be rebalanced annually.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Investment strategy is also likely to change with significant changes in funding level, but unless stated otherwise we have not considered the impact of this in order to focus on the high level investment strategy decision.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis is required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

Asset Model

The distributions of outcomes depend significantly on HRAM, our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Given the context of this modelling, we have not undertaken any sensitivity analysis to assess how different the results might be with alternative calibrations of the economic scenario generator.

We would be happy to provide fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, on request.

Expected Rate of Returns and Volatilities

The figures in the table below have been calculated using 5,000 simulations of the Hymans Robertson Asset Model, calibrated using market data as at 31 March 2015. The absolute expected returns shown are the 20 year geometric averages and the absolute volatilities quoted are the first year's standard deviations (all returns shown are net of fees).

It is important to be aware that the volatilities shown are the first year's volatilities and should only be used as such. The probability distributions for different asset classes are complex and attempting to extrapolate this first year volatility over a longer time period will almost certainly result in significant errors.

Asset Class	Expected return	Volatility
Index Linked Gilts (long dated)	0.4%	9%
Fixed Interest Gilts (long dated)	1.9%	13%
UK Equity	5.9%	17%
Overseas Equity	5.6%	20%
Private Equity	7.2%	29%
Property	3.9%	15%
Absolute Return	4.7%	9%
Infrastructure	4.8%	16%
Emerging Market Debt	4.4%	9%

Please note that whilst we comment that the returns shown are "expected", this identifies the level at which 50% of all possible outcomes will be above and 50% will be below – this does not mean that the return quoted is in any way the "most likely" outcome.

In addition, the current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -0.9% (2.2%) to 1.0% (4.6%).

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Agenda Item No: **9**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

23 September 2015

Report title	West Midlands Pensions Fund (WMPF) Statement of Investment Principles	
Originating service	Pension Services	
Accountable employee(s)	Mark Chaloner Tel Email	Assistant Director, Investments 01902 552094 mark.chaloner@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the Fund's Statement of Investment Principles.

1.0 Purpose

1.1 To approve the Fund's Statement of Investment Principles (SIP).

2.0 Background

2.1 Each year the Committee is invited to review the Fund's SIP.

3.0 Progress and recommendation

3.1 The SIP attached in Appendix A has been updated to reflect changes in asset allocation agreed by the Committee and is now presented for approval. It is recommended also that an additional sentence is inserted at the end of the first paragraph on Investment Strategy clarifying the Fund's performance objective – "Outperformance of 1.0% per annum over rolling three year periods above the customised benchmark for the Fund is targeted from active management". Unfortunately it was not possible to include this sentence in the draft SIP ahead of publication.

4.0 Financial implications

4.1 The financial implications are set out throughout the SIP attached in Appendix A.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 This report contains no environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

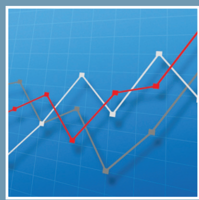
10.1 None.

11.0 Schedule of Appendices

11.1 Appendix A – Statement of Investment Principles.

West Midlands Pension Fund





Statement of Investment Principles 2015

September 2015

Statement of Investment Principles 2015

1. Introduction

This is the Statement of Investment Principles (the 'Statement') of the West Midlands Pension Fund (the Fund) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations"). In preparing this Statement, the Pensions Committee has consulted with such persons as it considered appropriate.

The City of Wolverhampton Council is the administering authority for the Fund under the regulations. The City of Wolverhampton Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Managing Director of the City of Wolverhampton Council, who is also the Head of Paid Service, delegates certain responsibilities to the Strategic Director of Pensions who, in turn, delegates to officers. To assist in its role, the Pensions Committee has delegated responsibility for investment specific decisions to the Investment Advisory Sub-Committee which has oversight of the implementation of the management arrangements for the Fund's assets and comprises of representatives from the seven district councils and two local trade unions. In addition, the Fund has the statutory local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. Finally, the Investment Advisory Panel advises the Strategic Director of Pensions on investment issues relating to the Fund. Neither the Pensions Board or the Investment Advisory Panel have any decision-making powers.

This statement has been adopted by the Pensions Committee.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the investment practice of Hymans Robertson LLP.

The responsibilities of relevant parties are set out in Appendix B.

The Fund's Statement of Investment Beliefs, adopted by the Pensions Committee, are set out in Appendix D.

Related Fund policies and statements are as follows and are publicly available on its website:

- Funding Strategy Statement
- Responsible Investment Framework
- Compliance with Myners
- Compliance with the UK Stewardship Code
- Governance Compliance Statement

2. Fund Objectives

The primary objective of the Fund is to provide pension and lump-sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

In addition, the Fund has the following objectives:

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

3. Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. These risks are set out and monitored as part of a formal risk register. In summary, the principal risks affecting the Fund are as follows:

Funding Risks

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

   The Fund manages this risk by setting a strategic asset allocation benchmark that seeks to achieve the appropriate balance between generating a satisfactory long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

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

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

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

   The Fund mitigates systemic risk through a highly diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

Asset Risks

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk that the currency of the Fund's assets underperforms relative to sterling (ie, the currency of the liabilities).

d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

   The Fund manages asset risk as follows:

   - It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines.
   - By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
   - By investing across a range of assets, including quoted equities and bonds, the Fund has recognised the need for some access to liquidity in the short term.
   - Robust financial planning and clear operating procedures for all significant activities.
   - The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, it is comfortable taking this risk.
   - In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

e) Environmental, social and governance (ESG) risks that are not given due consideration by the Fund or its investment managers. The Fund actively addresses this potential risk through implementation of its Responsible Investment (RI) Framework and its compliance with the UK Stewardship Code for Institutional Investors. Both documents are available on the Fund's website.

Operational Risk

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

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

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

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

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

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

   The Fund monitors and manages risks in all areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

4. Investment Strategy

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (set out in Appendix A) taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. In addition to ongoing monitoring the investment strategy is formally reviewed annually at Pensions Committee meetings set aside for that purpose. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

5. Day-to-Day Management of the Assets

Internally-Managed Assets
A significant amount of investment is carried out by the Fund internally. The majority of quoted equities are managed in-house, both passively and actively. Where appropriate skills are not available internally, external investment managers are used.

External Investment Managers
The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers are required to comply with LGPS investment regulations.

The Fund may invest in, but is not limited to, quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property, infrastructure, insurance linked securities and loans either directly, through pooled funds or via partnership agreements. The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

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

The managers appointed, and the mandates they manage, are detailed in Appendix A.

Expected Return on the Investments
Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation. The individual portfolios are expected to match or exceed the specific targets set for each portfolio over time.

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

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

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

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

Realisation of Investments
In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. Private equity and a number of the Fund's alternative investments, which together represent around 33% of total assets, may be difficult to realise quickly in certain circumstances.

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

6. Day-to-Day Custody of the Assets

The Fund has appointed a custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

7. Stocklending

Stocklending is undertaken in respect of the Fund's quoted equities holdings through the custodian as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations. There is a formal stocklending agreement and approved collateral. Stocklending may also take place in pooled investment vehicles held by the Fund.

8. Responsible Investment

The Fund's approach to responsible investment (RI) is highlighted below and further detailed in our Responsible Investment Framework.

Beliefs and Guiding Principles
The Fund's RI beliefs and guiding principles underpin its RI approach.

ESG integration
The Fund believes that effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long term growth.

Engagement versus Exclusion
Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of "engagement for positive change" to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing its RI approach.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone.

Voting
Where practical, the Fund aims to vote in every single market in which it invests in alignment with corporate governance best practice guidelines. In the interests of sending a consistent signal to investee companies, the Fund has decided to use a third party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers.

9. Compliance With This Statement

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

10. Compliance With Myners

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

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

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

List of Appendices

Appendix A – Fund Structure and Investment Benchmarks
Appendix B – Roles and Responsibilities
Appendix C – List of Advisers
Appendix D – Statement of Investment Beliefs

Appendix A - Fund Structure as of September 2015

Equities	
UK	In-house
North America	In-house
Europe	In-house
Far East	In-house
Global	MFS Investment Management
	Blackrock
	In-house
Emerging markets	AGF Investments
	BMO
	Mondrian Investment Partners
Private equity	In-house through specialist funds
Fixed interest	
UK gilts	In-house through specialist funds
UK index-linked	In-house through specialist funds
UK corporate	In-house through specialist funds
	Royal London Asset Management
Cash	In-house
Alternative investments	
In-house through a selection of specialist funds	
Direct property	CBRE
Indirect property	In-house through specialist funds

Appendix A - Investment Benchmark as of September 2015

	Medium-Term Asset Allocation September 2015 %	%	Medium-Term Strategic Ranges %
Quoted equities		**48**	**40-60**
UK	8.0		
Europe	7.5		
North America	7.5		
Japan & Far East	7.5		
Emerging markets	7.5		
Global equities	10.0		
Private equity	10.0		
Total equities		**58**	**50-70**
Fixed interest		**19**	**15-25**
UK index-linked	5.0		
UK gilts	2.0		
Cashflow matching	3.0		
Corporate bonds	2.5		
Emerging market debt	2.5		
Other fixed interest	2.0		
Cash	2.0		
Alternative		**23**	**15-25**
Direct property	7.0		
Indirect property	3.0		
Real assets & infrastructure	6.0		
Absolute return strategies	7.0		
Total non-equities		**42**	**30-50**
Total Fund		**100**	

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Appendix B - Roles and Responsibilities

Pensions Committee
Pensions Committee consists of 'trustees' who sit as the decision-making body of the Fund.

As a statutory public service scheme, the Fund has a different legal status compared with trust-based schemes in the private sector. Although those making decisions relating to the Fund are required, in many ways, to act as if they were trustees in terms of their duty of care, they are subject to a different legal framework and are not trustees in the strict legal sense.

The key duties in discharging this role are:

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

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

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

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

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

Pensions Board
The role of the Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties.

The Board consists of six employer and six member representatives consisting of five employer (officer) and five member (trade union) representatives together with two City of Wolverhampton councillors, each sitting one as an employer representative and one as a member representative.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

Investment Advisory Panel
The Investment Advisory advises the Strategic Director of Pensions on investment issues relating to WMPF.

Appendix C - Advisers as of September 2015

Hymans Robertson
Investment policy, general investment matters.

Barnett Waddingham
Actuarial matters

CBRE
Commercial property management

Knight Frank
Agricultural property management matters

Knight Frank
Independent property valuations

Savills
Independent agricultural property valuations.

AMEC
Planning matters (agricultural holdings).

PIRC
Company governance issues.

HSBC
Stocklending.

Scott Jamieson
Independent Investment Adviser –
Investment Advisory Panel

Appendix D - Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

Investment Strategy/Process Beliefs
Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- Internal asset management benefits the Fund through lower costs, greater transparency and increased focus. Management areas where it is difficult or not possible to obtain the right expertise should be managed externally.

Responsible Investment Beliefs

- Effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term.
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

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Agenda Item No: **10**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

23 September 2015

Report title	West Midlands Integrated Transport Authority (WMITA) Pension Fund's Statement of Investment Principles	
Originating service	Pension Services	
Accountable employee(s)	Mark Chaloner Tel Email	Assistant Director, Investments 01902 552094 mark.chaloner@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the WMITA Pension Fund's Statement of Investment Principles.

1.0 Purpose

1.1 To approve the WMITA Pension Fund's Statement of Investment Principles (SIP).

2.0 Background

2.1 With the new governance arrangements for the WMITA Pension Fund, the Committee is invited to review its SIP annually.

3.0 Progress and recommendation

3.1 The SIP attached in Appendix A has been updated and is now presented for approval.

4.0 Financial implications

4.1 The financial implications are set out throughout the SIP attached in Appendix A.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 This report contains no environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of Appendices

11.1 Appendix A – WMITA Pension Fund Statement of Investment Principles.



West Midlands Integrated Transport Authority (ITA) Pension Fund

Statement of Investment Principles 2015

September 2015

Statement of Investment Principles 2015

1. Introduction

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

1.2 Overall investment policy falls into two parts. The strategic management of the assets rests with the Integrated Transport Authority (the administering authority) who have delegated this responsibility to the Pensions Committee of the West Midlands Pension Fund (WMPF) which has representation from all district councils within the West Midlands. The Committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in Section 2 below.

The remaining elements of policy are part of the day-to-day management of the assets which is delegated to the external managers and the Strategic Director responsible for the West Midlands Pension Fund at the City of Wolverhampton Council and described in Section 3.

1.3 The roles of the committees are:

Role of Pensions Committee

1 To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations for the West Midlands ITA.

2 To put in place and monitor 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 administrating authority.

Key Duties

a) Pensions Committee

1) Monitor compliance with the legislation and best practice.

2) Determine investment policy based on recommendation:
a) benchmark (medium-term)
b) monitor policy

3) Appoint committee advisers.

b) 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.

c) Investment Strategy Panel

1) Monitor investment management arrangements.

2) Review strategic investment opportunities.

3) Monitor implementation of investment policy.

4) Monitor investment activity and performance of the Fund.

5) Oversee the administration of investment management functions of the Fund.

In addition, the Fund has the statutory local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty.

2. Investment Objectives and Risk

2.1 Investment Objectives

The Authority has set the following objectives:

i) Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.

ii) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.

iii) Emphasise markets that over time are likely to give better returns having regard to the risks relative to the maturity of the Fund's liabilities.

iv) Acknowledge the risk of investing and have regard to best practice in managing that risk.

2.2 Risk

There are various risks to which any pension scheme is exposed. The Authority has considered the following risks and believes that they do not exceed an acceptable level:

i) The risk of deterioration in the Fund's funding level due to assets failing to grow in line with the cost of meeting the liabilities.

The Fund manages this risk by setting a strategic asset allocation benchmark that seeks to achieve the appropriate balance between generating a satisfactory long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

ii) The risk that the investment managers, in their day-to-day management of the assets, will not achieve the rate of investment return expected by the Authority.

The Authority recognises that investing in more growth-ordinated assets and the use of active investment managers involves such a risk. To help manage the volatility of the Fund's returns, the Authority invests in highly diversified core holdings, including a mixture of equities, bonds and diversified growth funds. The Fund is also invested in actively managed non-government fixed interest arrangements.

iii) Any investment decision carries with it risks of different types (for example, risk of underperformance, risk from mismatching, risk from underfunding etc). The Authority recognizes these different types of risk and seeks to minimise them as far as possible by regular monitoring of the performance of the fund managers and regularly receiving advice from a range of professional advisors and ensuring that the Fund's portfolio is suitably diversified.

iv) During 2012, the Fund arranged an insurance 'buy-in' of part of the current liabilities for pensions in payment to more effectively manage the investment, interest, inflation and longevity risks.

2.3 Investment Strategy

The Authority sets a long term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and the investment objectives set out above. This is reviewed at least every three years, after each actuarial valuation. The Authority believed that the investment strategy needed further action to lower the risks for employers, and sought to move to an insurance 'buy-in' of part of the liabilities for pensions in payment, this being implemented in 2012. It will not make tactical asset allocation decisions unless market movements or related issues suggest otherwise.

As a result of the buy-in impacting the liabilities of only one of the underlying employers, a separate 'non-buy-in' investment strategy was implemented for the participating employer that was not involved in the buy-in.

This strategy, together with the 'post-buy-in' strategy (for the employer that was involved in the buy-in) is outlined in section 3.1.1. As at 31 March 2015, the 'buy-in' policy represented 56% of the total Fund assets.

In 2015, the assets attributable to the Fund's two employers were unitised so that they are now separately identified. There is a governance benefit from unitisation – it is the best method of providing the level of robustness required when Fund assets are formally assigned to individual employers. It also provides greater flexibility for the future, facilitating bespoke investment strategy and management arrangements for each employer segment.

3. Day-to-Day Management of the Assets

3.1 Main Assets

The Authority invests the main assets of the Fund in portfolios operated by three external investment managers. The Authority is satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each type provides adequate diversification of investments.

Asset Class		Manager
Equities Global Emerging markets	Passive	Legal and General
Fixed interest Index-linked gilts	Passive	Legal and General
Corporate bonds	Active	Legal and General
Diversified growth funds		Baillie Gifford Newton
Cash		City of Wolverhampton Council

3.1.1 Investment Performance Benchmark

The balance of the Fund, following the buy-in, has benchmarks as set out below, with risk bands applied either side of the benchmarks that, if breached, will trigger rebalancing.

Post-Buy-In Strategy

Asset Class	%
Global equities Emerging market equities	34.0 6.0
Total equities	**40.0**
Diversified growth funds	**40.0**
Index-linked Corporate bonds	10.0 10.0
Total bonds	**20.0**
	100.0

Non-Buy-In Strategy

Asset Class	%
Global equities Emerging market equities	19.1 3.4
Total equities	**22.5**
Diversified growth funds	**22.5**
Index-linked Corporate bonds	27.5 27.5
Total bonds	**55.0**
	100.0

3.1.2 Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the 2013 actuarial valuation. The individual portfolios should match or exceed the specific market benchmarks set for each portfolio over time.

3.1.3 Investment Restrictions

The investment managers are prohibited from holding investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

3.2 Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Equitable Life and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds. The Authority monitors from time to time the suitability and performance of these vehicles. No new business is being placed with Equitable Life.

3.3 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund is mature in terms of benefit liabilities and has a strong cash outflow on a regular basis. However, following implementation of the insurance buy-in, the Fund is currently cashflow-positive, and the need to realise investments is reviewed as appropriate by the Investment Strategy Panel.

3.4. Monitoring the Investment Managers

The performance of the investment managers is independently measured. In addition, officers of the Fund meet the investment managers regularly to review their management of the portfolio together with the reasons for the background behind the investment performance. The Investment Strategy Panel meets at least quarterly to review markets and managers.

3.5. Advisers

The Fund uses a range of advisors in addition to its own specialist officers as follows:

HSBC	Performance measurement, unitisation
Hymans Robertson	Investment advice
Barnett Waddingham	Actuarial matters and investment matters relative to liabilities
City of Wolverhampton Council Officers of the West Midlands Pension Fund	Day-to-day management and administration of the Fund to include governance management of cashflows and pension administration

Fees paid to advisors are agreed on an individual basis for a fixed sum or scale reviewed annually or as work is commissioned.

4. Corporate Governance and Responsible Investment (RI)

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

ii) The Fund supports good corporate governance in the companies in which it invests and the challenging of companies who do not meet the standards or reasonable expectations set by their peers.

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

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

v) The Fund is also a member of the Local Authority Pension Fund Forum. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest.

5. Compliance with this Statement

The Authority will monitor compliance with this statement. In particular it will obtain confirmation from the investment managers that they exercised their powers of investment with a view to giving effect to the principles contained in the statement so far as is reasonably practicable. The Authority undertakes to advise the investment managers promptly and in writing of any material change to this statement.

6. Compliance with Myners

Following from the Myners' Report into Institutional Investment in the UK, the Government, after consultation, indicated it would take forward all of the report's recommendations and identified ten investment principles to apply to pension schemes.

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

The Myners' principles have since been updated and consolidated into six. The Fund supports the principles and complies with the principles. Full details of compliance are set out in the Fund's Myners' Compliance Statement which can be found on the Fund's website.

7. Review of this Statement

The Authority will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. This review will occur annually.

8. Stocklending

Stocklending is undertaken in respect of the Fund's quoted equities holdings held in pooled investment vehicles managed by Legal & General as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations. Stocklending may also take place in other pooled investment vehicles held by the Fund.

The lending of equities is through the custodian to the pooled investment vehicles with a formal agreement in place and approved collateral.

Investments Division
PO Box 5327
Wolverhampton
WV1 9LS
United Kingdom

Agenda Item No: **11**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

23 September 2015

Report title	West Midlands Integrated Transport Authority – Appointment of investment adviser
Originating service	Pension Services
Accountable employee(s)	Mark Chaloner — Assistant Director, Investments Tel — 01902 552094 Email — mark.chaloner@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever — Strategic Director of Pensions Tel — 01902 552020 Email — Geik.drever@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the appointment of Hymans Robertson as the investment adviser to the West Midlands Integrated Transport Authority Pension Fund.

1.0 Purpose

1.1 To appoint an investment adviser to the West Midlands Integrated Transport Authority (WMITA) Pension Fund.

2.0 Background

2.1 Prior to the appointment of Barnett Waddingham as the WMITA Pension Fund's actuary, Mercer, the previous actuary, provided investment advice on an ad hoc basis. One of the key recommendations of the Myners report is the separation of actuarial and investment advisory arrangements. The main WMPF has followed the practice with Hymans Robertson the appointed investment adviser and Barnett Waddingham the Fund's actuary. Hymans Robertson was appointed by WMPF in 2012 following a competitive tendering process. Because the WMITA Pension Fund was in the process of setting up a new buy in arrangement at that time, no changes were then made to its investment advisory arrangements.

3.0 Recommendation

3.1 It is usual for both West Midlands Pension Fund (WMPF) and the WMITA Pension Fund to have the same advisers and now recommended that Hymans Robertson is appointed as the WMITA Pension Fund's investment adviser, providing advice when specifically commissioned to do so, for example on asset allocation. The scope of the advice and fees would be agreed when work is commissioned.

4.0 Financial implications

4.1 The financial implications are set out in 3.1 above.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 This report contains no environmental implications.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 None.

11.0 Schedule of Appendices

11.1 None.

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Agenda Item No: **12**

Pensions Committee

23 September 2015

Report title	Annual Report and Accounts 2014/15	
Originating service	Pension Services	
Accountable employee(s)	David Kane Tel Email	Head of Finance 01902 554423 david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 geik.drever@wolverhampton.gov.uk

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Recommendations for action or decision:

The Committee is recommended to approve:

1. The Annual Report for the year ending 31 March 2015, and its publication on the Fund's website following completion of the external audit.

The Committee is recommended to note:

1. PwC's draft annual audit report.

1.0 Purpose

1.1 The purpose of this report is to seek the Committee's approval of the audited annual report for the year ending 31 March 2015, and its publication on the Fund's website.

2.0 Background

2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce an annual report and statement of accounts. These must be subject to external audit, and published no later than 30 September (accounts) and 1 December (annual report).

2.2 The draft Annual Report and Accounts were presented to Committee on 24 June, and have since been audited by the Fund's external auditor, PwC. A draft audit report is appended to this report, and PwC will also attend the Committee to present their findings.

3.0 Audit Findings

3.1 Subject to the finalisation of certain audit work that was outstanding at the time of writing (and is set out in PwC's report), it is anticipated that PwC will issue an unqualified audit opinion. In addition to this, no significant internal control weaknesses have been identified.

3.2 As a result of PwC's audit work, a small number of changes have been made to the accounts. These were:

- The re-classification of cash held by the Fund's direct property agents from a current asset to an investment asset;
- An adjustment to the breakdown of gains on investment assets between Profits and Losses on Disposal and Changes in Value of Investments.

3.3 These changes have had no impact on the bottom line of the Fund Account or the Net Assets Statement, meaning that the value of the Fund at 31 March 2015 remains at £11.5 billion, with the increase in value during the 2014/15 year being £1.3 billion.

3.4 PwC's findings are summarised in their 'Report to those charged with governance' (ISA 260 report), which is attached at Appendix A.

4.0 Publication

4.1 It is recommended that the Annual Report and Accounts (Appendix B) be published on the Fund's website following approval by the Committee, and subject to the finalisation of PwC's audit work. This will be well in advance of the statutory deadline of 1 December.

4.2 The consolidated national Scheme Annual Report will be published by the Scheme Advisory Board in due course.

5.0 Financial implications

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

6.0 Legal implications

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

7.0 Equalities implications

7.1 This report has no equalities implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 The report has no human resources implications.

10.0 Corporate landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of background papers

- Draft Annual Report and Accounts 2014/15, Report to Pensions Committee, 24 June 2015

12.0 Schedule of Appendices

14.1 Appendix A – Draft Audit Report

14.2 Appendix B – Annual Report 2015

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West Midlands Pension Fund

Report to those charged with governance

Report to the Pension Committee and those charged with governance of the West Midlands Pension Fund on the audit for the year ended 31 March 2015 *(ISA (UK&I)) 260)*

Government and Public Sector

23 September 2015

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Contents

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our plan to you in June 2015; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

- We have completed the majority of our audit work (except in the area of investments) and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on 23 September 2015.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
  - completion of our work in the area of investments;
  - review of the detailed disclosures in the Statement of Accounts;
  - approval of the Statement of Accounts and letters of representation;
  - receipt of outstanding investment confirmations; and
  - completion procedures including subsequent events review.

We will provide an update on all outstanding matters on 23 September 2015.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 23 September 2015. Attending the meeting from PwC will be David Wallace and Aniquah Syed.

Audit approach

Our audit approach was set in our audit plan which we presented to you in June 2015.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Work performed
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant	We performed procedures to: • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • test the appropriateness of journal entries; • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform ‘unpredictable’ procedures. We performed other audit procedures as necessary.

Risk	Categorisation	Work performed
Risk of fraud in revenue recognition ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. The risk of fraud in revenue recognition is a non-rebuttable presumption that there is a significant risk that a material misstatement could occur due to the manipulation of revenue, either through recognising revenue early or fraudulent revenue recognition.	Significant	We performed procedures to: • Consider recognition criteria for one-off contributions/bulk transfers • Consider recognition criteria for other types of contribution given the changes to contributions that have taken place in the year. We performed other audit procedures as necessary.
Valuation of hard to value investments West Midlands Pension Fund holds a mixture of categories of investment within the Pension fund portfolio. For a proportion of these assets a readily available market price is not always available.	Elevated	We reviewed the monitoring procedures in place over these categories of investments with management. We confirmed the valuation of hard-to-value investments at year end with the individual investment managers and assessed the accuracy of the year end valuation by reviewing the latest audited accounts to information provided to management to assess the reasonableness of these unit prices. We reviewed the latest investment manager controls reports where available, to update our understanding of controls and procedures in place over valuation of such assets.

We have summarised below the other risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Focus area/risk	Work performed
Investment assets and returns	
Investments may not exist or the scheme may not have title to investment assets	• We understood the Pensions Committee and management monitoring controls, including reviewing Pensions Committee meeting minutes; • We obtained independent confirmations of all externally managed investments assets from the investment managers. In the case of those investment assets managed by the in house team, we obtained confirmation from the custodian; and • We reviewed internal controls reports on investment management and custody.
Investments may be incorrectly valued	• We tested the valuation of quoted investments against third party sources; • We understood how the Committee and management validate asset values provided by investment managers for investments which are not quoted; and • We reviewed valuations for pooled investment vehicles and private equity investments, including reviewing the most recent audited accounts for the funds and any available internal controls reports.
Investments may be recorded incompletely in the financial accounting records and the accounts	• We reviewed the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments; and • We reviewed the reconciliations performed in-house between investment manager and custodian assets.
Performance of investments reported may be inconsistent with the accounts	• We completed an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices.
Allocation of investments may not be in accordance with the Statement of Investment Principles ('SIP')	• We reviewed the allocation of investments compared with the requirements of the SIP.

Focus area/risk	Work performed
Contributions	
Payment of employer contributions may not be in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")	• We reviewed the controls over payroll and validate on a sample basis that these are operating as expected; • We undertook analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions; • We considered the monthly contributions received and investigate any unusual fluctuations; • We tested on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules; and • We reviewed the timing of the payment of contributions according to bank details compared with the requirements of the schedule(s).
Benefits and membership	
Benefits may not be correctly calculated according to the local government regulations	• We reviewed the controls operated by the administration team (including over the pension payroll) and validated on a sample basis that these are operating as expected; • We undertook analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase; • We considered the monthly total pensions paid and investigate any unusual fluctuations; and • We performed substantive testing on a sample basis over material types of benefit payments.
Membership statistics accurately reflect the membership of the scheme	• We reviewed the results of any pensioner existence checking exercise completed during the year; and • We compared membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.
Other areas	
Current assets and liabilities may not be appropriately accounted for	• We reviewed balances compared with the prior year and against our expectations from testing of income and expenditure; • We obtained independent confirmation of cash balances; and • We reviewed controls over cash movements and bank account authority levels.

Focus area/risk	Work performed
Related party transactions may be incomplete or inaccurately reflected in the accounts	• We understood the controls that the Pensions Committee and management have over the identification of related parties and transactions with them; • We made specific enquiries for any transactions which look to be outside of the normal course of business; and • We confirmed our recommendation relating to Related Parties included in last year's report to the Pensions Committee has been appropriately addressed.

Materiality

In our audit plan presented to you in June 2015, we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality increased following receipt of the 2015 draft financial statements, increasing to £114.6m (from £101.4m).

ISA (UK&I) 450 (revised) require that we record all misstatements identified except those which are 'clearly trivial', i.e. those which we do not expect to have a material effect on the financial statements even if accumulated. Following the change to overall materiality, the de minimis threshold increased to £5.7m (from £5.0m).

The increases noted did not have a significant impact upon the scope of audit testing performed.

Significant audit and accounting matters

Auditing standards require us to tell you about relevant matters related to the audit of the financial statements sufficiently promptly for you to take appropriate action. This section contains such items.

Accounts

We have completed our audit, subject to the following outstanding matters:

- completion of our audit work in the area of investments;
- review of the detailed disclosures in the Statement of Accounts;
- approval of the Statement of Accounts and letters of representation;
- receipt of outstanding investment confirmations; and
- completion procedures including subsequent events review.

Accounting issues

We have no significant accounting issues to bring to your attention.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial.

There were no uncorrected misstatements identified as part of our audit procedures.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. There were no significant audit findings in relation to these areas.

Disagreements with management

There were no disagreements with management, individually or in aggregate, which could be significant to the entity's Statement of Accounts or our audit report.

Management representations

We will be asking management to provide us with a signed representation letter to confirm information and statements they have given to us during the course of our audit.

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Financial standing

There are no material uncertainties related to events and conditions that may cast significant doubt on the scheme's financial standing.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We have not identified any issues in performing our related party work which needs to be brought to your attention.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Pensions Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

Apart from the audit of the Statement of Accounts, PwC has undertaken no other work for the Fund.

Fees

We reported our fee proposals in our plan. Our actual fees were in line with our proposals.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's/ the pension scheme's senior management or staff.

Other matters

We are not aware of any other matters which may impact on our independence and objectivity e.g. litigation.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee/those charged with governance to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Internal controls and other observations

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit. We did not identify any internal control deficiencies as part of this years' audit, and we are pleased to report that the items noted in the prior year have been addressed by management.

We did, however, note an opportunity to improve the internal control environment at the Fund - see below.

Observation	Opportunity and Recommendation	Management's response
Leaver process not functioning at Dudley MBC payroll site. Through our sample testing performed, we noted that there were six members classified as active within the membership listings obtained from the payroll site, however all members had actually left employment. The implication is although no contributions were received following the member's date of leaving, the Fund's membership statistics are not correct due to late notification from the payroll site.	We note that management have procedures in place to capture member changes from the employer payroll sites. In addition, management perform an annual reconciliation exercise to pursue any discrepancies arising from the annual return process. We note there is an opportunity to enhance the Fund's internal control environment, and therefore recommend management: • Commence a more frequent reporting requirement for current active member statistics from the major payroll sites (to include Dudley MBC) to allow the Fund to reconcile membership numbers with contributions received on a regular basis. This will give management greater comfort over the active membership information and also streamline the year-end membership reporting process.	The Fund accepts the recommendation, and will work closely with its employers to implement a timely and effective system for identifying and reconciling membership discrepancies.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in June 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?

* What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

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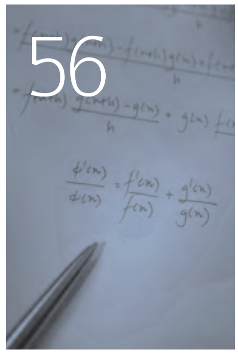
West Midlands Pension Fund
Annual Report 2015

West Midlands Pension Fund

Contents



Introduction

Introduction from the Chair of the Pensions Committee and the Strategic Director of Pensions

Councillor Thomas (Bert) Turner
Chair Of Pensions Committee

This has been a year of dramatic change for the Local Government Pension Scheme (LGPS). The year began with the biggest change in local government pensions for a generation: the switch to pensions being based on career-average salaries instead of final salaries. We worked hard to prepare for this change during the preceding year, and that work paid off as – despite the need to make major changes to IT systems, to train staff and communicate the changes to members and employers, not to mention the added complexity of effectively operating four different benefit schemes – we were able to continue providing pensions to over 80,000 pensioners, and supporting another 195,000 active and deferred members to provide for their retirement.

The agenda of regulatory change has not let up during the year, with new governance arrangements being introduced for all public sector pension schemes. For the LGPS, this has meant the establishment of local pensions boards (with effect from April 2015), and a national Scheme Advisory Board. We are proud to have been a forerunner in establishing and recruiting our own local Pensions Board, and are pleased with the knowledgeable and committed individuals we have attracted to this important role.

Wider changes in the pensions industry also continue to impact upon us. The newly-introduced ability to access pension savings more flexibly from April 2015, including the ability to withdraw a cash lump-sum, could apply to members of our Fund. Whilst we believe that the LGPS offers an excellent means of providing for an income in retirement, and one that is not easy to match, we are mindful of, and planning for, any potential impact.

This has been a good year for our investments, with total returns amounting to 15.1%, compared to a benchmark return of 11.6%. The main contributors to the outperformance were good relative performances from the private equity and absolute return portfolios. Over the last five years, annualised returns have amounted to 8.0%, significantly ahead of both inflation and pay growth.

We are acutely aware of the need to demonstrate effective cost control, particularly at a time where many of our employers are experiencing significant budget pressures. During the year, we undertook a restructure of our investment portfolio, withdrawing from arrangements which did not meet our strategy or offer the best value for money. We have also strengthened our in-house investment management team, and are excited to be launching a new in-house actively-managed global equities portfolio during the forthcoming year. Taken alongside other restructuring activities in the recent past, and planned for the near future, these initiatives will have generated savings of almost £25 million per year on investment management fees. These savings are crucial, because ultimately they will go towards paying members' pensions, and alleviate the pressure on employers' budgets.

The cost of administration is also a key focus for us. As a result of tight financial controls, we have been able to reduce the cost of administration and governance per member from £19.16 in 2013/14 to £18.70 in 2014/15. This is particularly noteworthy given the continued growth in the number of employers during the last year – up from 420 to 471 – as well as an increase in scheme members of more than 7,000.

One of the key ways in which we are keeping administration costs down is through our focus on developing an electronic business model. During the year, we have continued to promote our online web portal for members, with the number of registrations rising to 23,157 by the end of the financial year. We have also redesigned and modernised our website, which has resulted in pleasing feedback from users, and next year we will be introducing automatic electronic compilation for remittance of contributions. We are grateful to all of our employers and members for embracing this medium of transacting.

Introduction

Geik Drever
Strategic Director of Pensions

Responsible investment sits at the heart of our approach to managing our members' funds, and we have further strengthened this with the recruitment of a Responsible Investment Officer this year. Where companies do not meet the high standards that we and fellow investors expect, we challenge them. We believe in an approach that combines three key elements: voting globally, engagement through partnerships and shareholder litigation.

We are a founder member and active participant of the Local Authority Pension Fund Forum, which is a significant and influential player in the responsible investment arena. Our Assistant Director of Investments also plays a crucial role on the Board of the United Nations-backed Principles for Responsible Investment. In December 2014, we enhanced governance in this area, further still, by introducing a *Statement of Investment Beliefs*.

We were delighted to win the Local Government Chronicle Investment Award for Skills and Knowledge this year for our trustee training programme. We are also proud to have achieved and maintained Customer Service Excellence and Investors in People awards: two accreditations that unambiguously reflect our focus on providing a high quality service to our members and employers, and on investing in the skills and knowledge of our staff and trustees.

We are particularly pleased to note that trustees achieved a combined total of 865 hours of training during the year.

In general, this has been a good year for the Fund, which has seen us rise to the numerous challenges placed before us, and leaves us well-positioned to face the challenges of the future. There will be many such challenges, including the ongoing focus on the cost of the LGPS, further regulatory changes both to the LGPS and in the wider pensions industry, the impact of declining cashflow and market returns and, last but not least, the issue of the pensions deficit and the funding strategy to make good that deficit.

We would like to take this opportunity to thank the members of the Pensions Committee, the Investment Advisory Sub-Committee and the Joint Consultative Forum for their work during the year, and whose advice, support and challenge have been invaluable. We would also like to extend our thanks to the Fund's staff, whose professionalism and dedication to the service of our members throughout a period of change has been unfaltering and truly impressive.

Councillor Thomas (Bert) Turner
Chair Of Pensions Committee
Date: June 2015

Geik Drever
Strategic Director of Pensions
Date: June 2015

Introduction

277,558
TOTAL SCHEME MEMBERS*

473
ACTIVE SCHEME EMPLOYERS

£11.5bn
NET ASSETS OF THE FUND

£500.2m
TOTAL CONTRIBUTIONS

82,110
PENSIONER MEMBERS

104,250
CONTRIBUTING MEMBERS

91,198
DEFERRED MEMBERS

*includes unpaid/unclaimed refunds and beneficiaries

The Fund's Core Objectives

- **to be a top-performing fund;**
- **to achieve target investment returns;**
- **to provide excellent customer service;**
- **to meet our funding strategy**

The figures shown in the following section, which do not form the statutory accounts of West Midlands Pension Fund, have been extracted from the full accounts of the City of Wolverhampton Council. You can obtain a copy of the full accounts of the City of Wolverhampton Council by contacting the City of Wolverhampton Council team or through the Council's website. Contact details can be found on page 7 of these stand-alone annual report and accounts.

Introduction

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 Cashflow 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.

9) Increased Use of In-House Investment Management Expertise
The Fund plans to increase its in-house investment capability and expertise, thereby further reducing investment management costs. Its successful passive equities management function will be complemented by a new active global equities management capability during 2015/16. The Fund is further strengthening its external investment management selection and monitoring capability.

Management and Financial Performance

- Scheme Management and Advisors (as at 31 March 2015)
- Risk Management
- Financial Performance
- Administrative Management Performance
- Corporate Responsibility

Management and Financial Performance

Part A: Scheme Management and Advisors as at 31 March 2015

Pensions Committee 2014/15

CITY OF WOLVERHAMPTON COUNCIL

City of Wolverhampton Council
Civic Centre
St. Peter's Square
Wolverhampton
WV1 1SH

Email: city.direct@wolverhampton.gov.uk
General enquiries: 01902 551155
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- **Councillor TH Turner*** Chair
- **Councillor L McGregor** Vice-Chair
- **Councillor Z Shah**
- **Councillor P Bilson***
- **Councillor V Evans**
- **Councillor J Jaspal**
- **Councillor M Heap***
- **Councillor I Brookfield**
- **Councillor P Page**
- **Councillor T Singh***
- **Councillor S Samuels**
- **Councillor P Singh**

DISTRICTS

- **Councillor M Afzal***
  Birmingham City Council
- **Councillor M Arif***
  Walsall MBC
- **Councillor D Gannon***
  Coventry City Council
- **Councillor R Harris***
  Dudley MBC
- **Councillor A Rebeiro***
  Solihull MBC
- **Councillor S Eling***
  Sandwell MBC *(resigned)*
- **Councillor S Hevican***
  Sandwell MBC *(from March 2015 - previously substitute member)*

**Denotes member of Investment Advisory Sub-Committee*

OBSERVER MEMBERS

- **M Cantello** Unison
- **M Clift** Unite
- **I Smith** Unite *(retired)*
- **V Silvester** Unite

ADMINISTERING AUTHORITY OFFICERS

- **K Ireland**
  Managing Director
- **G Drever**
  Strategic Director of Pensions
- **M Chaloner**
  Assistant Director (Investments)
- **S Taylor**
  Acting Head of Pensions Administration
- **R Howe**
  Head of Governance
- **D Kane**
  Head of Finance
- **A Lowbridge-Ellis**
  Communications Officer
- **K O'Keefe**
  Monitoring Officer
- **M Taylor**
  Section 151 Officer

MAIN EXTERNAL ADVISERS AND SERVICE PROVIDERS

- **Investments**
  Hymans Robertson LLP
- **Property**
  CBRE Global Investors
- **Pension Scheme Registration Number**
  10079176
- **Actuary**
  Mercer Human Resource Consulting Ltd
- **Custodian of Assets**
  HSBC Global Investment Services
- **Banker**
  National Westminster Bank plc
- **Independent Auditor**
  PricewaterhouseCoopers LLP
- **AVC Providers**
  Prudential Assurance Company Ltd
  Equitable Life Assurance Society
- **Corporate Governance**
  Pensions & Investment Research Consultants (PIRC)

HMRC REFERENCES

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

Joint Consultative Forum (JCF)

The subjects considered by the panel during 2014/2015 included the following:

- Governance reform
- Responsible investment activities (1 January 2014 to 31 March 2015)
- LGPS 2014 – update on progress
- Pensions administration report

Management and Financial Performance

Part B: Risk Management

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

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

The key elements are:

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

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

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

Details are contained in the *Statement of Investment Principles* and the *Funding Strategy Statement*. The operational management of the investment strategy is covered by a compliance testing programme, designed with the help of Deloitte, leading to quarterly reports to the Pensions Committee. This provides continual monitoring and review of investment activity and associated risks. The Fund's approach to risk is regularly assessed, the Fund's investment strategy is reviewed annually by the Pensions Committee supported by the Fund's investment advisor, the latest being 2014/15.

The investment strategy is monitored weekly by officers, enabling appropriate corrective action to be taken if deemed necessary. A quarterly report is submitted to the Investment Sub-Committee covering the current asset allocation relative to the benchmark, investment performance and the actions taken during the quarter to implement the Pensions Committee's investment policy. Any positions outside the strategic risk ranges are reported and explained. In addition, an Investment Advisory Panel became operational from April 2015. Its role is to provide further assurance and robust governance. One of its key duties is to review the investment risks taken by the Fund, monitoring how the risks are managed and making recommendations on actions required to address investment risks.

Risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of an IT system that is thoroughly and regularly tested, combined with the checking of output by pension staff.

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

Management and Financial Performance

Part B: Risk Management

The Fund's key risks identified as part of the risk management process, together with actions to mitigate them, are detailed in the table below:

Risk identification	Cross reference to the annual report	Risk impact	Mitigating factors
Inability to settle trades or pay pensions on the due date through inadequate cashflow.	Note 24 The nature and extent of risks arising from financial instruments	Reputational impact, possible interest charges and regulatory censure	Regular cashflow monitoring is conducted by the Finance team with frequent reports to the Senior Management Team.
The Fund publishes inaccurate financial information or bases decisions around inaccurate information.	Risk management	Poor decisions made in relation to the investment strategy. Inaccurate information provided to regulators and trustees.	Financial statements are produced annually. A new Finance team is in place consisting of fully-qualified accountants. A new finance system was put in place in April 2014 with up-to-date monitoring now being undertaken.
The Fund cannot continue to operate and deliver its priority services following a disaster or data loss scenario.	Risk management	The Fund cannot continue to operate and deliver its priority services.	A business continuity plan is in place for incidents which deny access to offices. Regular testing and review of the plan is conducted. The Fund is currently in discussions with the administering authority to ensure that it is adequately covered in the authority's recovery plan.
Loss of external data providers impacts on the Fund's ability to carry out work.	Risk management	Customer detriment and possible financial loss.	Regular reviews will be carried out on third party providers' continuity provision. This will form part of the due diligence process for any new third party providers.
Investment strategy is inappropriate (not aligned with Funding Strategy Statement or Statement of Investment Principles).	Note 24 The nature and extent of risks arising from financial instruments	Reputational damage and regulatory risk.	All key documents are reviewed on annual basis to ensure consistency between them.

Risks arising from third parties are detailed in the above table. In addition, risks arise from:

a) Employers failing to make their payment of contributions within legislated timescales. The Fund monitors contribution receipts on a monthly basis and produces a key performance indicator which details the collection rate as a percentage of contributions due and also identifies the employers who have failed to make payment on time. This is reported to the Senior Management Team and action is taken to pursue arrears. Where there is ongoing failure to make payment, the option is available to charge interest on the balance in accordance with legislation.

b) Investment managers, whose internal controls arrangements are not under the direct control of the Fund, and may not be effective, which could indicate that the Fund's assets are at risk. To mitigate such risk, the Fund obtains and reviews internal controls reports (AAF 01/06 and SSAE16) produced by the individual investment managers' reporting accountants. The Fund's review will identify any weaknesses in individual investment managers' control arrangements as identified by the reporting accountants and these exceptions will be recorded by the Fund's Compliance team and addressed in meetings with the investment managers. In addition, where investment managers do not produce internal control reports, the Fund will review the manager's arrangements through the completion of a detailed questionnaire.

Management and Financial Performance

Financial Services Report

Introduction

The primary functions of the Finance team are to make payments to pensioners and suppliers, to collect income due to the Fund, and to account for all of the Fund's activities, including its investments.

Part C: Financial Performance

Getting the most from our money is a key focus for the Fund, and it is with this in mind that we are pleased to note a fall in the cost of administration, oversight and governance per member from £19.16 in 2013/14 to £18.70 in 2014/15. This represents the successful deployment of strong financial controls, and the embedding of a culture of challenging unnecessary expenditure across the Fund. It is particularly remarkable given the continuing increase in the number of employers, which has risen by a further 12% during the last year.

In April 2014, the Fund, in conjunction with the City of Wolverhampton Council, introduced a new finance system, covering accounts payable, accounts receivable, banking and the general ledger. Already, we have re-designed some of our processes to make the most of the enhanced flexibility, speed of processing, and reporting capabilities offered by the new system. This work will continue into next year, to support one of the Fund's key priorities, to develop an electronic business model.

Looking to the future, it will be critical for us to continue to demonstrate efficiency and cost-effectiveness to our members and employers.

The Finance function will support this by ensuring that planning and forecasting is timely and complete, that management information is accurate and relevant, and that all expenditure decisions are carefully scrutinised.

Outturn 2014/15: Operating Budgets

The following table sets out the Fund's outturn for 2014/15 compared to budget. The net position was a saving of £3.7 million, the main reasons for this being:

- Savings on investment management fees following portfolio restructuring (£2.2 million);
- Staffing vacancies (£538,000);
- Balance of service development budget not used in 2014/15 (£350,000);
- Lower than budgeted expenditure on computer hardware and licences (£251,000);
- Supplemented by other savings across supplies and services and premises budgets of over £350,000.

	Approved budget 2014/15 £000	Outturn 2014/15 £000	Variance £000
Employees	4,512	3,833	(679)
Premises	344	321	(23)
Transport	69	42	(27)
Communications and computing	740	528	(212)
Investment management and advice (see note)	11,173	9,020	(2,153)
Other	2,287	2,302	15
Support services	523	487	(36)
Service development	350	-	(350)
Total expenditure	**19,998**	**16,533**	**(3,465)**
Miscellaneous income	(530)	(733)	(203)
Net expenditure	**19,468**	**15,800**	**(3,668)**

Note: for the purposes of the operating budget, this line refers to invoiced investment management costs only, and is therefore lower than the figure disclosed in the Fund account.

Management and Financial Performance

Part C: Financial Performance

Cost-per-member is a critical measure for the Fund of its cost-effectiveness. The table below sets out the cost-per-member in 2014/15, compared to budget and last year, using the new three-category format specified by CIPFA in June 2014. The key measure kept under review as part of the Fund's service plan monitoring is the combined cost of administration, oversight and governance, which has fallen from £19.16 in 2013/14 to £18.70.

	2013/14 actual	2014/15 budget	2014/15 outturn
Total administration costs (£000)	3,153	3,454	3,059
Administration cost per member (£)	11.66	12.46	11.02
Total investment management costs (£000)	10,815	13,878	10,608
Investment management cost per member (£)	40.01	50.05	38.22
Total oversight and governance costs (£000)	2,026	2,136	2,132
Oversight and governance cost per member (£)	7.50	7.70	7.68

Outturn 2014/15: Whole Fund

Across the Fund, the year-end position was £763.8 million better than forecast. The main reasons for this were:

- Investment returns (including income) being significantly better than the prudent returns assumed in the forecast (at 15.2% vs 6%) (£945.6 million);
- Contributions income being higher than forecast, mainly due to an increase in contributions due from employers on early retirement (£26.9 million), and higher than forecast contributions across the Fund (£20.0 million) which resulted from the prudent assumptions about membership used in the forecast;
- Offset by net transfers out of £252.0 million, almost all of which was represented by the transfer of the Staffordshire and West Midlands Probation Trust to Greater Manchester Pension Fund in June 2014 (£246.0 million).

	2014/15 forecast £m	2014/15 actual £m	2014/15 variance £m
Contributions receivable	(450.3)	(500.2)	(49.9)
Other income	(16.6)	(15.7)	0.9
Benefits payable	496.6	498.2	1.6
Other payments	0.3	0.4	0.1
Net transfers in/out	-	252.0	252.0
Net cost of pensions	**30.0**	**234.7**	**204.7**
Investment income	(141.2)	(160.5)	(19.3)
Gains in value of investments	(464.0)	(1,409.6)	(945.6)
Return on investments	**(605.2)**	**(1,570.1)**	**(964.9)**
Management expenses (operating budget) - see footnote	**19.4**	**15.8**	**(3.6)**
Net increase in the Fund	**(555.8)**	**(1,319.6)**	**(763.8)**
Opening Fund balance	10,144.4	10,144.4	-
Closing Fund balance	**10,700.2**	**11,464.0**	**(763.8)**

Footnote: for the purposes of the operating budget, this line refers to invoiced investment management costs only, and is therefore lower than the figure disclosed in the Fund account.

Management and Financial Performance

Part C: Financial Performance

Medium-Term Forecasts: Operating Budgets

The following tables set out the Fund's medium-term forecasts for its operating budgets, and express these in terms of cost-per-member. Over the medium term, the costs of administration, oversight and governance per member are forecast to remain broadly stable. Oversight and governance is significantly influenced by the triennial actuarial review, which causes the spikes in 2016/17 and 2019/20. The cost of investment management per member is forecast to grow; however, this solely reflects anticipated growth in the value of the Fund's assets.

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

Footnote: for the purposes of the operating budget, this line refers to invoiced investment management costs only, and is therefore lower than the figure disclosed in the Fund account.

	2015/16 budget	2016/17 forecast	2017/18 forecast	2018/19 forecast	2019/20 forecast
Total administration costs (£000)	3,621	3,785	3,874	3,959	4,037
Administration cost per member (£)	12.83	13.12	13.14	13.15	13.12
Total investment management costs (£000)	11,975	12,637	13,299	13,995	14,727
Investment management cost per member (£)	42.43	43.80	45.12	46.50	47.86
Total oversight and governance costs (£000)	2,422	2,749	2,554	2,604	2,913
Investment management cost per member (£)	8.58	9.53	8.66	8.65	9.47

Management and Financial Performance

Part C: Financial Performance

Medium-Term Forecasts: Whole Fund
This table sets out forecasts for the whole Fund, over the period to 2019/20.

	2014/15 actual £m	2015/16 forecast £m	2016/17 forecast £m	2017/18 forecast £m	2018/19 forecast £m	2019/20 forecast £m
Contributions receivable	(500.2)	(484.7)	(506.1)	(524.1)	(536.8)	(549.9)
Other income	(15.7)	(15.9)	(16.2)	(16.5)	(16.8)	(17.1)
Benefits payable	498.2	511.1	536.2	562.1	588.9	616.6
Other payments	0.4	0.4	0.4	0.4	0.4	0.4
Net cost of pensions	**(17.3)**	**10.9**	**14.3**	**21.9**	**35.7**	**50.0**
Net transfers (in)/out	**252.0**	**-**	**-**	**-**	**-**	**-**
Investment income	(160.5)	(158.5)	(169.1)	(178.7)	(188.7)	(199.0)
Gains in value of investments	(1,409.7)	(521.0)	(555.8)	(587.3)	(620.2)	(654.1)
Return on investments	**(1,570.1)**	**(679.5)**	**(725.0)**	**(766.1)**	**(808.9)**	**(853.2)**
Management expenses (operating budget) - see footnote	**15.8**	**18.0**	**19.2**	**19.7**	**20.6**	**21.7**
Net increase in the Fund	**(1,319.6)**	**(650.6)**	**(691.5)**	**(724.5)**	**(752.6)**	**(781.5)**
Opening Fund balance	10,144.4	11,464.0	12,114.6	12,806.1	13,530.6	14,283.2
Closing Fund balance	**11,464.0**	**12,114.6**	**12,806.1**	**13,530.6**	**14,283.2**	**15,064.7**

Footnote: for the purposes of the operating budget, this line refers to invoiced investment management costs only, and is therefore lower than the figure disclosed in the Fund account.

Comparisons of Operating Costs With Other Funds
The Government collects information from all LGPS funds – on their administration and fund management costs – on a yearly basis.
The latest figures are for 2013/14 and these show the following comparison:

	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

Management and Financial Performance

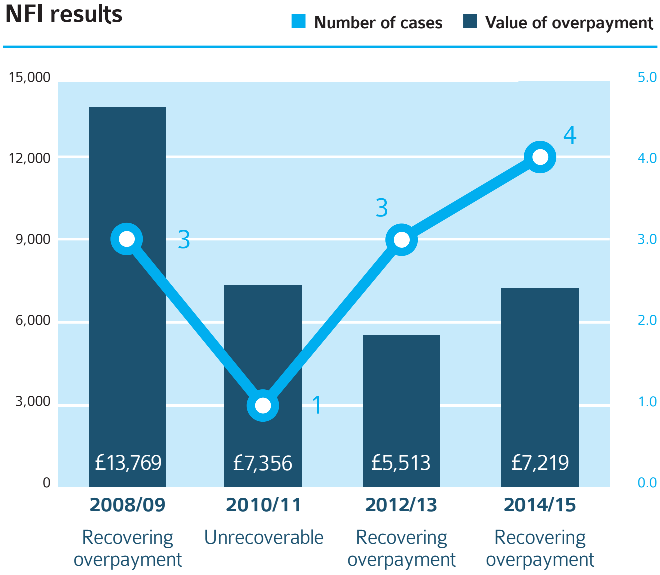
Part C: Financial Performance

Pension Overpayments
The Fund seeks to minimise and recover, where appropriate, any overpayments made to members. The majority of these cases arise from late notification of a member's death. The following table sets out overpayments for the last five years.

Year	Pension overpayment (£)	% of gross pension
2010/11	118,864.39	0.04
2011/12	182,531.21	0.06
2012/13	168,539.52	0.05
2013/14	235,970.78	0.06
2014/15	234,743.68	0.06

Minimising Fraud
The Fund participates in the National Fraud Initiative (NFI), which is a biennial process undertaken in conjunction with the Audit Commission. The last initiative was undertaken in 2014/15 and the necessary recoveries arising from identified overpayments are being pursued. The results from previous years are shown in the following chart.

NFI results



Timeliness of Contributions
The receipt of contributions is monitored and reported to the Strategic Management Team on a monthly basis in the form of a key performance indicator (KPI). The table below details the KPI during 2014/15; this shows the percentage of contributions received by the 19th of the following month in which contributions have been deducted from the employers' payroll. The Fund has set itself the target of collecting 98% of contributions by value on time; as can be seen, performance was above target throughout the year.

Month	KPI % for individual months contributions
April 2014	99.3
May	98.7
June	99.0
July	98.8
August	99.8
September	99.7
October	99.9
November	99.5
December	99.2
January 2015	99.6
February	97.5
March	99.2
Total for year	**99.2**

Note that the Fund did not use the option to levy interest on any overdue contributions during 2014/15, as the value of the late payments did not form a material risk to the Fund.

David Kane
Head of Finance
West Midlands Pension Fund
Date: June 2015

Management and Financial Performance

Part C: Financial Performance

Contributions Receivable

Employer	Employer's contributions (£)	Employee's contributions (£)
Birmingham City Council	(103,599,887)	(28,910,349)
Coventry City Council	(30,624,387)	(8,652,798)
Dudley MBC	(26,576,472)	(9,325,657)
Sandwell MBC	(32,780,713)	(8,839,871)
Solihull MBC	(26,167,794)	(4,717,040)
Walsall MBC	(29,061,265)	(6,682,280)
City of Wolverhampton Council	(28,884,042)	(7,039,928)
Centro	(8,204,736)	(799,568)
Staffordshire & West Midlands Probation Trust	(1,174,327)	(414,359)
Age Concern Wolverhampton	(59,100)	-
Valuation Tribunal Service	(30,570)	(4,682)
Aston University	(426,000)	-
Black Country Museum Trust Ltd	(168,115)	(29,661)
Birmingham Institute for the Deaf	(35,450)	(998)
Coventry Law Centre	(29,206)	(7,530)
Age Concern Birmingham VSOP	(9,032)	(1,219)
Wolverhampton Grammar School	(54,135)	(25,023)
Chelmsley Wood Town Council	(19,691)	(3,304)
Wolverhampton Voluntary Sector Council	(55,453)	(19,305)
Fordbridge Parish Council	(5,751)	(2,094)
Birmingham City University	(5,395,417)	(1,987,591)
Coventry University	(6,673,716)	(2,715,655)
University of Wolverhampton	(5,196,833)	(1,991,343)
West Midlands Fire & Civil Defence Authority	(2,755,946)	(746,915)
The Chief Constable for West Midlands Police	(15,756,211)	(5,679,237)
University College Birmingham	(1,114,982)	(414,871)
Bournville College of Further Education	(761,050)	(303,285)
South & City College Birmingham	(2,211,378)	(688,170)
Birmingham Metropolitan College	(2,415,767)	(792,678)
Henley College	(556,511)	(171,501)
Hereward College	(638,484)	(198,392)
Dudley College of Technology	(1,029,671)	(376,758)
Halesowen College	(455,169)	(180,392)
King Edward VI College	(201,036)	(64,115)
Sandwell College	(863,947)	(242,066)
Solihull College	(1,004,042)	(405,991)
Walsall College	(920,607)	(379,626)
Cadbury Sixth Form College	(120,321)	(43,211)
Joseph Chamberlain College	(193,869)	(78,858)
The Sixth Form College Solihull	(244,780)	(87,424)
Coventry & Solihull Waste Disposal Company Ltd	(237,446)	(15,834)
New Park Villiage Tenant Management Organisation	(19,042)	(8,183)
Marketing Birmingham Ltd	(66,683)	(30,750)
Lighthouse Media Centre	(6,596)	(567)
Family Care Trust	(19,245)	(2,809)
Friendship Care and Housing Ltd	(187,364)	(8,271)
St Columba's Church Day Centre	(10,855)	(3,436)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
Sandwell Community Caring Trust	(225,124)	(68,611)
Palfrey Community Association	(46,618)	(16,696)
The Pendrels Trust Ltd	(28,801)	(7,875)
Bushbury Hill Estate Management Board	(28,578)	(12,566)
Brownhills Community Association	(6,000)	-
Smiths Wood Parish Council	(3,621)	(1,267)
Sickle Cell & Thalassaemia Group	(14,896)	(6,169)
Coventry Sports Trust Ltd	(202,621)	(49,694)
West Midlands Councils	(150,000)	-
Optima Community Association	(305,465)	(73,398)
Delves Ease Estate Management	(22,778)	(3,843)
Life Education Centres West Midlands	(30,166)	(5,075)
City of Wolverhampton College	(827,302)	(335,068)
Pool Hayes Community Association	(849)	(152)
Home-Start (Stockland Green/Erdington)	(11,088)	(2,344)
Meriden Parish Council	(2,612)	(726)
Wildside Activity Centre	(3,270)	(1,029)
Whitefriars Housing Group	(2,594,073)	(777,219)
Balsall Parish Council	(3,130)	(1,043)
Manor Farm Community Association	(12,694)	(6,575)
Bloomsbury Local Management Organisation Ltd	(71,022)	(22,437)
Millennium Point Trust	(9,236)	(3,751)
Galliford (UK) Ltd	(18,742)	(4,354)
Lieutenancy Services (WM) Ltd	(20,477)	(3,681)
Home-Start (Northfield)	(9,556)	(3,903)
Castle Bromwich Parish Council	(16,372)	(5,624)
Leisure Living Ltd	(26,899)	(5,981)
Steps to Work (Walsall) Ltd	(115,290)	(42,130)
Home-Start (Walsall)	(9,941)	(3,176)
Murray Hall Community Trust	(75,959)	(36,871)
Sandbank Tenant Management Co-Operative Ltd	(16,284)	(4,458)
Coventry Solihull & Warwickshire Partnership Ltd	(1,035,320)	(146,310)
City College Coventry	(748,954)	(196,417)
Walsall Housing Group	(2,020,616)	(1,119,679)
Amey Highways Ltd	(25,131)	(7,009)
Leamore Residents Association Limited	(13,133)	(4,562)
Northern Housing Consortium Ltd	(164,073)	(71,792)
Walsall Academy	(101,067)	(45,536)
WATMOS Community Homes	(156,931)	(86,709)
Chuckery Tenant Management Organisation Ltd	(26,105)	(11,788)
Voyage Care Limited	(868)	(898)
West Midlands Transport Information Service Ltd	(129,500)	-
Black Country Partnership NHS Foundation Trust	(84,901)	(28,848)
Solihull Care Ltd	(28,074)	(5,804)
Solihull Community Housing	(1,037,322)	(463,055)
Sandwell Leisure Trust	(409,483)	(225,937)
Grace Academy	(495,200)	(221,549)
Pell Frischman Consultants Ltd	(6,090)	(1,320)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
Sandwell Homes	(2)	-
Enterprise (AOL) Ltd (Telford/Wrekin)	(39,481)	(5,379)
Edith Cadbury Nursery School	(4,027)	(1,513)
Mitie PFI Ltd	(9,974)	(2,710)
Wolverhampton Homes	(2,613,302)	(1,105,611)
Enterprise Managed Services Ltd (Wolverhampton)	(273,073)	(128,634)
Integral UK Ltd	(1,951)	(480)
Black Country Consortium Ltd	(114,452)	(66,614)
Riverside Housing Association Ltd	(10,239)	(3,715)
Mitie Property Services (UK) L	100,000	-
Kingshurst Parish Council	(2,622)	(739)
Service Birmingham Ltd	(354,744)	(158,066)
BME United Ltd	(30,375)	(14,151)
Sandwell Academy	(155,345)	(66,975)
Dovecotes Tenant Management Organisation Ltd	(28,724)	(14,108)
Midland Heart Ltd	(33,396)	(5,406)
Balfour Beatty Workplace Ltd	(94,233)	(23,394)
British Telecommunications PLC	(367,300)	-
The Collegiate Academy Trust	(195,681)	(99,780)
Serco Ltd (Stoke CC)	(231,600)	-
Enterprise Managed Services Ltd (Solihull)	(139,916)	(47,135)
Q3 Academy	(104,058)	(50,801)
Mears Group PLC	(799,396)	(297,545)
Willmott Dixon Partnerships Ltd (North Contract)	(818,548)	(301,772)
Housing 21 Ltd	(366,124)	(105,837)
Alliance in Partnership - Asto	64,200	-
Alliance in Partnership - Camp Hill	(3,195)	(1,005)
Titan Partnership Ltd	(5,818)	(606)
CTC Kingshurst Academy	(147,302)	(70,864)
RSA Academy	(112,703)	(72,934)
BAM Construct UK Ltd	(24,133)	(9,656)
Shelfield Community Academy	(219,951)	(72,755)
Tarmac Ltd	(57,022)	(55,993)
Capita IT Services Ltd	(48,826)	(22,752)
Bespoke Cleaning Services Ltd	(10,137)	(3,436)
Sandwell Arts Trust	(97,900)	-
Ormiston Sandwell Community Academy	(138,490)	(51,555)
Park Hall Academy	(182,556)	(49,729)
City of Wolverhampton Academy Trust	(335,442)	(122,844)
E-ACT Heartlands Academy	(148,477)	(51,588)
E-ACT Shenley Academy	(209,228)	(51,801)
ARK Academies	(158,818)	(52,321)
Acua Ltd	(2,832)	(937)
NSL Ltd	(6,816)	(7,398)
Agilisys Ltd (Rowley/Smethwick)	(681)	(887)
KGB Cleaning & Support Services Ltd (Bishop Ulathorne School)	(1,387)	(853)
Sidney Stringer Academy Trust	(263,360)	(98,688)
Willmott Dixon Partnerships Ltd (South Contract)	(1,584,088)	(362,584)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
Mears Ltd	(5,422)	(2,130)
Amey LG Ltd	(1,167,921)	(330,381)
King Edward VI Sheldon Heath Academy	(111,046)	(52,679)
E-ACT North Birmingham Academy	(196,342)	(70,390)
Harborne Academy	(107,160)	(43,290)
Mouchel Ltd	(2,382)	(1,822)
Arden Academy Trust	(128,599)	(52,365)
Balfour Beatty Workplace Ltd (Coventry)	(82,453)	(21,726)
SERCO Ltd (Sandwell)	(898,837)	(271,696)
Park Hall Infant Academy	(57,821)	(15,171)
St Patricks Church of England Primary Academy	(28,415)	(9,110)
Tudor Grange Academy Solihull Trust	(191,187)	(64,345)
Taylor Shaw Limited (COWAT)	(14,065)	(571)
Regent Office Care Ltd (COWAT)	(3,154)	(855)
Quadron Services Ltd	(250,461)	(69,760)
John Henry Newman Catholic College	(177,536)	(58,673)
Agilisys Services Ltd (OCOS/WODO/Tipton)	(8,845)	(3,247)
Windsor High School and Sixth Form	(184,480)	(77,207)
Wood Green Academy Trust	(122,836)	(49,434)
Ninestiles Academy Trust	(293,723)	(94,984)
Lordswood Girls School & Sixth Form Centre	(112,669)	(49,222)
Ryders Hayes Academy Trust	(59,102)	(19,151)
Kings Norton Girls School & Language College	(134,349)	(34,789)
Premier Security Services Limited	(41,700)	(7,175)
Shire Oak Academy Trust	(209,660)	(63,309)
Bartley Green School	(145,418)	(52,484)
The Blue Coat Church of England Academy Ltd	(244,530)	(68,242)
Queen Marys High School (Walsall)	(84,827)	(21,196)
Queen Marys Grammar School (Walsall)	(103,572)	(29,898)
Sutton Coldfield Grammar School for Girls Academy Trust	(149,698)	(45,935)
Whitley Academy	(161,345)	(53,733)
Aston Manor Academy	(153,435)	(46,332)
Creative Support Limited	(10,660)	(3,233)
Heart of England School	(152,167)	(62,940)
Light Hall School	(163,351)	(51,515)
Holly Hall Academy	(102,143)	(36,519)
Matrix Academy Trust	(134,213)	(42,019)
Woodlands Academy	(139,891)	(49,812)
Rookery School	(100,233)	(33,470)
Finham Park School Academy	(246,036)	(67,698)
Langley School	(139,890)	(41,105)
Alderbrook School	(184,785)	(47,727)
Lode Heath School	(138,198)	(39,865)
The Westwood Academy	(170,293)	(52,510)
Holyhead School	(176,889)	(63,957)
Fairfax School (Academy)	(230,985)	(79,091)
Tile Hill Wood School & Language College	(205,731)	(56,106)
Deanery Church of England School	(101,465)	(31,326)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
Plantsbrook School	(213,306)	(67,667)
Oldbury Academy	(183,643)	(60,656)
Hillcrest School & Sixth Form Centre	(103,456)	(32,076)
Ormiston George Salter Academy	(130,857)	(60,420)
King Edward VI Camp Hill School for Boys (Academy)	(68,511)	(19,677)
King Edward VI Camp Hill School for Girls (Academy)	(60,275)	(18,450)
King Edward VI Handsworth School (Academy)	(87,759)	(22,465)
King Edward VI Five Ways School (Academy)	(116,773)	(35,767)
King Edward VI Aston School (Academy)	(60,079)	(23,408)
Regent Office Care - Henley College	(4,771)	(1,273)
The High Arcal School Academy Trust	(200,532)	(63,079)
Arthur Terry Learnings Partnership	(669,263)	(204,587)
The Kingswinford School & Science College	(130,196)	(43,323)
Black Country University Technical College	(32,326)	(14,040)
Nishkam School Trust	(40,688)	(26,313)
Age Concern Birmingham	(32,728)	(14,377)
Heath Park Academy - Central Learning Partnership Trust	(120,857)	(47,483)
Lawrence Cleaning - St Stephens School	(1,044)	(594)
Mirus Academy - Walsall College Academies Trust	(241,062)	(77,306)
The Streetly Academy	(248,520)	(81,077)
NSL Ltd (Solihull)	(2,526)	(1,070)
New Heritage Regeneration Ltd	(12,794)	(12,996)
Sodexo Limited	(21,712)	(6,542)
Ormiston Forge Academy	(189,970)	(56,237)
Alliance in Partnership - Stoke Park	(4,375)	(2,059)
Alliance in Partnership - Ernesford Grange	(1,090)	(490)
Alliance in Parntership - President Kennedy	(1,906)	(695)
Earls High School (The)	(153,032)	(50,035)
Initial Catering Services Ltd (Smethwick)	(29,852)	(8,918)
Initial Catering Services Ltd (Rowley)	(6,458)	(1,964)
Park Hall Junior Academy	(72,406)	(20,845)
Joseph Leckie Academy	(203,521)	(59,765)
E-ACT Willenhall Academy	(178,071)	(59,714)
Hall Green Secondary School	(204,387)	(62,594)
Park View Educational Trust	(98,517)	(32,266)
Birmingham Museums Limited	(227,634)	(130,688)
Bishop Vesey's Grammar School	(111,861)	(35,363)
Mesty Croft Academy	(47,252)	(19,128)
Oldknow Academy	(67,149)	(21,316)
Action for Children (Smethwick)	(40,250)	(12,415)
Mytime Active	(56,701)	(19,068)
Wilson Stuart School	(250,321)	(87,186)
Hockley Heath Academy	(27,710)	(8,475)
Murray Hall Community Trust (Oldbury)	(9,531)	(3,540)
Murray Hall Community Trust (Rowley)	(28,536)	(12,203)
Murray Hall Community Trust (Wednesbury)	(17,195)	(7,412)
Warren Farm Primary School	(52,280)	(20,625)
Aldridge School - a Science College	(161,865)	(46,663)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
Taylor Shaw Limited (Colton Hills School)	(5,876)	(1,622)
Moseley Park School - Central Learning Partnership Trust	(90,386)	(26,100)
St Johns C of E Primary School	(94,298)	(30,708)
Barnardos (Sandwell)	(21,969)	(5,299)
Coundon Court Academy	(257,601)	(73,134)
Great Barr Primary School	(119,753)	(34,938)
Timberley Academy Trust	(180,038)	(59,851)
Lend Lease FM (Broadway School)	(34,518)	(12,952)
Lend Lease FM (EMEA) Ltd (Park View School)	(14,368)	(3,552)
Lend Lease FM (EMEA) Ltd (International School)	(13,421)	(5,737)
Lend Lease FM (EMEA) Ltd (Saltley School)	(12,947)	(4,288)
Lend Lease FM (EMEA) Ltd (Moseley School)	(23,417)	(8,278)
Lend Lease FM (EMEA) Ltd (George Dixon School)	(18,116)	(5,904)
Lend Lease FM (EMEA) Ltd (Waverley School)	(2,812)	(821)
Lend Lease Construction (EMEA) Ltd (Sheldon Heath School)	(2,636)	(737)
Lend Lease Construction (EMEA) Ltd (Park View & International School)	(15,333)	(6,059)
Lend Lease Construction (EMEA) Ltd (Saltley School)	(7,027)	(2,691)
Lend Lease Construction (EMEA) Ltd (Moseley School)	(2,844)	(1,057)
Lend Lease Construction (EMEA) Ltd (George Dixon School)	(10,685)	(3,854)
Lend Lease Construction (EMEA) Ltd (Waverley School)	(9,760)	(4,220)
Lend Lease Construction (EMEA) Ltd (Four Dwellings School)	(7,423)	(2,456)
Victoria Park Primary Academy	(126,651)	(39,802)
Erdington Hall Primary Academy	(97,615)	(28,838)
Balsall Common Primary Academy	(90,237)	(24,771)
Woodlands Academy of Learning	(72,735)	(23,150)
Acivico (Design Contruction & Facilities Management) Ltd	(726,624)	(399,371)
Acivico (Building Consultancy) Ltd	(13,499)	(30,852)
Aston University Engineering Academy Birmingham	(37,253)	(23,010)
Sandwell Community Caring Trust (Sandwell Care Homes)	(94,622)	(39,798)
Carillion (Highfields & Pennfields)	(19,846)	(5,981)
St Michael's C of E Primary Academy Handsworth	(23,208)	(9,542)
St Mary's C of E Junior & Infants School	(63,611)	(18,072)
ARK Rose Primary Academy	(49,752)	(14,023)
Green Meadow Primary School	(21,571)	(5,229)
ARK Tindal Primary Academy	(66,148)	(19,267)
George Dixon Academy	(101,033)	(39,345)
Nansen Primary School - Park View Educational Trust	(86,973)	(26,010)
Regent Office Care Ltd (Willenhall)	(6,150)	(1,638)
Perry Beeches - The Academy	(198,065)	(63,664)
Handsworth Wood Girls Academy	(130,116)	(43,088)
Dorrington Academy Trust	(84,141)	(28,143)
ARK Kings Academy	(103,105)	(36,885)
Interserve Facilities Management Ltd (OCOS/WODO/Tipton Schools)	(22,977)	(7,785)
Interserve Facilities Management Ltd (Smethwick Campus)	(20,700)	-
Interserve Facilities Management Ltd (Rowley Campus)	(5,574)	(2,395)
St Peters Church of England Academy Trust	(182,264)	(66,284)
Jubilee Academy Mossley - ATT	(43,041)	(10,671)
Action for Children (West Bromwich)	(13,899)	(6,332)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
S4E Limited	(105,067)	(53,496)
Nechells Primary E-ACT Academy	(35,740)	(7,801)
Ormiston Academies Trust	(122,001)	(115,602)
EBN Free School	(15,842)	(9,360)
Croft Primary Academy - Elliot Foundation Trust	(36,238)	(12,512)
Lordswood Boys School	(108,221)	(36,130)
Chilwell Croft Academy - Equitas Academies Trust	(101,722)	(26,749)
Lawrence Cleaning Ltd - Parkfield School	(1,077)	(471)
Elite Cleaning & Environmental Services Ltd (Walsall)	(9,530)	(4,694)
Goldsmith Primary Academy - Windsor Academy Trust	(56,159)	(17,629)
Kings Rise Academy - The Elliot Foundation Academies Trust	(81,157)	(22,961)
Alston Primary School	(184,775)	(36,988)
Greenholm Primary School	(69,512)	(18,905)
Blue Coat Church of England (Walsall) Trust	(115,208)	(39,666)
Caludon Castle Academy	(164,918)	(54,883)
Percy Shurmer Primary School	(86,573)	(27,233)
Redcliffe Catering Ltd (Calthorpe School)	(16,929)	(2,903)
Woden Primary - Central Learning Partnership Trust	(67,787)	(20,333)
West Walsall E-ACT Academy	(244,024)	(75,184)
BOA Birmingham Ormiston Academy	(70,324)	(34,126)
ABM Catering Limited	(7,281)	(5,168)
Broadening Choices for Older People	(35,702)	(350)
Harrison Catering Services Ltd (Shenley Academy)	(11,840)	(3,977)
PlacesForPeopleLeisureLimited–HarbornePool	(20,411)	(8,036)
Taylor Shaw (Great Barr School)	(15,267)	(4,506)
Sandwell Inspired Partnership Services	(450,373)	(236,387)
Lend Lease Construction (EMEA) Ltd (HML Stockland Green & Broadway)	(9,064)	(4,536)
Lend Lease FM (EMEA) Ltd (HM & Stockland Green School)	(29,371)	(10,921)
Lend Lease (EMEA) Limited - E-ACT	(2,384)	(1,761)
Aspen Services Ltd (Gosford Park School)	(2,392)	(919)
St Clements C of E Academy Nechells	(27,724)	(14,885)
Oasis Community Learning - Blakenhale Junior	(32,664)	(12,782)
Oasis Community Learning - Woodview School	(92,756)	(42,877)
Oasis Community Learning - Blakenhale Infants	(60,150)	(21,226)
Lea Forest Primary Academy	(70,918)	(26,226)
Four Dwellings Primary Academy	(82,458)	(26,770)
Tame Valley Academy - Education Central MAT	(43,625)	(15,493)
Shirestone Community Academy - The Elliot Foundation Academies Trust	(66,722)	(19,201)
KGB Cleaning & Support Services Ltd (Alderbrook School)	(9,073)	(1,442)
Oasis Community Learning - Short Heath Primary	(83,307)	(21,812)
Aldersley Academies Trust	(158,888)	(60,384)
Yardleys School	(144,695)	(41,461)
Rough Hay Primary School	(67,819)	(20,360)
Charles Coddy Walker Academy - Erudition Schools Trust	(73,560)	(16,120)
Billesley Primary Academy - The Elliot Foundation Academies Trust	(124,001)	(34,115)
Merritts Brook E-ACT Primary Academy	(39,502)	(11,250)
St Michael's Church of England Primary School Bartley Green	(67,035)	(17,448)
Reedswood E-ACT Primary Academy	(106,522)	(25,943)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
James Brindley School	(242,784)	(60,789)
CateringAcademyLtd-Walsall	(1,274)	(392)
Oaklands Primary - Ninestiles Academy Trust	(57,316)	(20,342)
Greenwood Academy - Academies Enterprise Trust	(144,670)	(48,924)
Tudor Grange Primary Academy St James	(18,726)	(6,235)
Mansfield Green E-ACT Primary Academy	(95,386)	(32,302)
Parkfield Academy Trust	(103,221)	(41,827)
Urban Enterprises (Bournville) Ltd	(34,514)	(14,348)
City Road Academy - Birmingham City Uni Academy Trust	(133,721)	(30,089)
Culture Coventry	(258,413)	(112,885)
Bramford Primary - Griffin Academy Trust	(109,449)	(28,143)
Bristnall Hall - The Academy Transformation Trust	(176,119)	(66,798)
Redhill School	(200,213)	(65,136)
Baverstock Academy - The Leap Academy Trust	(259,817)	(59,838)
Edgar Stanners Academy - Education Central MAT	(79,289)	(23,817)
Moor Green Primary Academy	(32,486)	(12,690)
Knowle CE Primary Academy	(104,577)	(26,095)
St Joseph's - John Paul II Multi-Academy	(64,837)	(11,897)
St Nicholas's - John Paul II Multi-Academy	(57,562)	(11,721)
Holy Cross - Sutton Coldfield Catholic Schools Multi-Academy	(65,595)	(12,855)
Bishop Walsh - Sutton Coldfield Catholic Schools Multi-Academy	(195,698)	(41,704)
The ACE Academy - Education Central Multi Academy Trust	(172,881)	(67,334)
St John's and St Peter's C of E Academy	(41,315)	(12,963)
St Georges C of E Academy	(56,956)	(13,330)
Acocks Green Primary School	(111,853)	(30,752)
Washwood Heath Academy	(294,609)	(83,432)
Perry Hall Primary School	(96,664)	(24,741)
KGB Cleaning & Support Services Ltd (Lyndon School)	(2,951)	(1,006)
European Electronique Ltd (Tile Hill Wood School)	(10,174)	(3,426)
Call First Cleaning Limited	(592)	(187)
Oasis Community Learning - Matthew Boulton	(64,439)	(18,142)
Four Dwellings High School Academy	(127,988)	(37,997)
Oasis Community Learning - Hobmoor Primary	(93,784)	(21,437)
Timbertree Primary - United Learning Academies	(31,840)	(12,419)
George Betts Academy - The Elliot Foundation Academies Trust	(113,009)	(24,287)
Hamstead Hall Academy Trust	(288,410)	(74,369)
Corngreaves Primary - United Learning Academies	(58,956)	(15,425)
Shireland Hall Academy - The Elliot Foundation Academies Trust	(88,388)	(25,152)
Stretton Primary Academy - Diocese of Coventry MAT	(50,508)	(10,168)
St Laurence's Primary Academy - Diocese of Coventry MAT	(93,804)	(20,733)
Yarnfield Academy - Ninestiles Academy Trust	(172,628)	(43,047)
President Kennedy School	(276,842)	(68,871)
Hawkesley Church Primary Academy	(98,265)	(17,659)
Birchills Academy - St Chads Academies Trust	(73,992)	(25,840)
Montgomery Primary Academy - Academies Enterprise Trust	(137,197)	(40,703)
Fairway School - Education Central Multi Academy Trust	(64,399)	(18,904)
Cheswick Green Parish Council	(1,182)	(461)
Jubilee Park Academy Trust	(62,027)	(14,414)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
Ocker Hill Junior Academy	(41,348)	(10,633)
Three Spires Academy - RNIB Specialist Learning Trust	(68,723)	(16,032)
Silvertrees Academy	(161,565)	(26,840)
Pegasus Academy - Ninestiles Academy Trust	(70,046)	(14,641)
St Edmund's Academy - Bishop Clearly MAC	(189,031)	(57,199)
SS Mary & Johns Catholic Primary Academy - Bishop Clearly MAC	(26,565)	(7,250)
St Teresa's Academy - Bishop Clearly MAC	(27,999)	(6,844)
Holy Trinity C of E Primary Academy	(77,785)	(15,523)
Giffard Catholic Academy - Bishop Cleary MAC	(48,751)	(12,520)
St Michaels Academy - Bishop Clearly MAC	(49,348)	(11,316)
Tiverton Academy - The Elliot Foundation Academies Trust	(62,583)	(12,800)
St Joseph's Academy - St John Bosco Catholic Academy Trust	(42,085)	(13,081)
Bishop Milner Academy - St John Bosco Catholic Academy Trust	(106,404)	(33,826)
St Chads Academy - St John Bosco Catholic Academy Trust	(31,504)	(7,604)
Bentley Heath Church of England Primary School	(64,516)	(14,431)
Reaside Academy - Educational	(37,828)	(10,583)
St George's Academy Newtown	(44,297)	(16,581)
St Bartholomew's C of E Primary Academy	(82,457)	(17,886)
Hill Farm Academy - Castle Phoenix Trust	(81,051)	(23,965)
The Orchards Primary Academy - Education Central MAT	(95,554)	(21,232)
Wednesbury Oak Primary Academy	(70,853)	(16,773)
Robin Hood Primary Academy	(110,202)	(27,226)
Woodhouse Primary Academy - Education Central MAT	(154,437)	(36,811)
Broadway Academy	(201,749)	(53,742)
Places for People Leisure Limited	(8,497)	(2,439)
Radford Primary Academy - Sidney Stringer Academy Trust	(67,172)	(14,938)
Ernesford Grange Academy	(154,880)	(54,813)
Chivenor Academy - Griffin Schools Trust	(97,324)	(26,510)
Rivers Primary Academy - Windsor Academy Trust	(52,245)	(13,927)
Golden Hillock Academy - Park View Educational Trust	(191,372)	(56,363)
Anand Free School	(124)	(61)
Walsall Studio School	(3,575)	(1,761)
Waverley Studio College	(10,519)	(4,684)
Twickenham Primary Academy	(101,314)	(24,872)
Grestone Primary Academy	(129,342)	(28,793)
St Paul's C of E Primary Academy	(4,797)	(1,047)
Kingswood Trust	(12,726)	(5,884)
Leigh Primary School	(157,483)	(39,933)
Education Central Multi Academy Trust	(10,255)	(9,306)
Wodensborough Academy	(231,528)	(53,751)
Aspen Services Ltd (Courthouse Green Primary School)	(6,313)	(1,600)
Wolverhampton Girls High School	(150,698)	(28,839)
St Judes Academy - The Wulfrun Academies Trust	(82,992)	(23,427)
Oasis Community Learning - Foundry Primary	(58,446)	(13,385)
Berrybrook Primary School	(38,902)	(12,216)
Reach Free School	(17,769)	(7,842)
WMG Academy for Young Engineer	(28,530)	(14,042)
Cottesbrooke Infant & Nursery School	(136,380)	(20,767)

Management and Financial Performance

Part C: Financial Performance

Employer	Employer's contributions (£)	Employee's contributions (£)
Alliance in Partnership (Unity Cluster)	(8,097)	(2,106)
APCOA Parking UK Ltd (Wolverhampton)	(5,335)	(1,636)
Smestow School - Education Cen	(178,065)	(52,365)
Northwood Park Primary School	(20,319)	(5,595)
Marston Green Infant Academy	(51,320)	(17,432)
Smithswood Primary School	(84,466)	(23,029)
Bespoke Cleaning Ltd (Westwood Academy)	(722)	(243)
Police & Crime Commissioner West Midlands	(94,370)	(68,411)
Civica UK Ltd (Ark Schools)	(8,256)	(3,098)
Northern House School Academy Trust	(27,051)	(10,664)
Taylor Shaw (Great Barr Birmingham)	(17,474)	(4,546)
St John's C of E Primary Academy – Diocese Coventry MAT	(31,515)	(7,193)
Catering Academy (John Gulson)	(3,967)	(1,090)
HeathlandsAcademy–EducationCentralMAT	(125,090)	(24,271)
Wednesfield High School	(42,069)	(10,254)
Albert Bradbeer Primary School	(156,714)	(24,681)
Action Indoor Sports Birmingham CIC Ltd	(2,789)	(1,111)
Ridge Crest Cleaniing	(11,171)	(2,793)
Bournville Secondary	(105,846)	(22,689)
The University Training School	(2,233)	(1,088)
Devonshire Infant Academy-Victoria Park Multi Academy Trust	(98,932)	(16,106)
Seva Free School	(8,756)	(3,864)
Devonshire Junior Academy-Victoria Park Multi Academy Trust	(37,344)	(9,551)
Town Junior School - Plantsbrook Academy	(34,460)	(6,265)
St Joseph's Academy - St Nicholas Owen Catholic MA	(18,394)	(4,940)
Our Lady of Fatima Catholic Primary School - St Nicholas Owen Catholic MA	(30,529)	(6,568)
St Mary's Catholic Primary School - St Nicholas Owen Catholic MAC	(19,588)	(7,000)
Calthorpe Academy	(294,730)	(67,134)
Crestwood Academy	(9,363)	(3,233)
Hillstone Junior and Infant Academy	(106,707)	(26,044)
Ellowes Hall Sports Academy	(9,677)	(4,766)
Wyndcliffe Primary School	(23,367)	(5,221)
Brownmead	(30,072)	(6,310)
ABM Catering Ltd (Cannon Park)	(532)	(171)
St John's C of E Primary Academy – St Chad's Academy Trust	(10,752)	(3,807)
St Martin's C of E Primary School	(2,607)	(1,284)
Field View Primary School	(5,843)	(2,878)
Holy Rosary Catholic Primary Pope John XXIII	(3,632)	(843)
St Mary's Catholic Primary	(9,293)	(2,145)
Our Lady & St Chad Catholic Sports College	(10,172)	(2,550)
Corpus Christi Catholic Primary -Pope John	(4,823)	(1,120)
Grand total of contributions receivable	**(389,496,903)**	**(110,653,426)**

Management and Financial Performance

Part D: Administrative Management Performance

Overall Fund Statistical Information

Key Membership Statistics

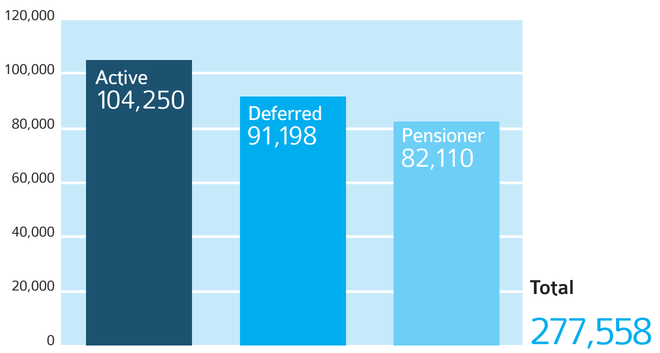
Year	Active	Deferred	Preserved refunds	Pensioner	Beneficiary	Totals
31 March 2011	102,011	73,040	8,121	59,833	10,688	**253,693**
31 March 2012	95,478	76,422	8,045	64,280	10,948	**255,173**
31 March 2013	97,330	78,679	7,830	66,461	11,024	**261,324**
31 March 2014	99,771	82,287	7,721	69,170	11,381	**270,330**
31 March 2015	104,250	83,521	7,677	70,587	11,523	**277,558**

Active members
The Fund has a total active membership of **104,250**. Since 31 March 2014, the number of contributing employees in membership has increased by **4,479**.

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

Pensioner members
Pensions and other benefits amounting to **£498.3m** were paid in the year to retired members.

Benefit Operations Staff/ Fund Member Ratios



Average Cases per Member of Benefits Operations Staff

Number of processes

Processes outstanding as at 31 March 2014	Processes completed 2014/15	Processes outstanding as at 31 March 2015
12,139	108,416	11,692

Average processes per member of staff

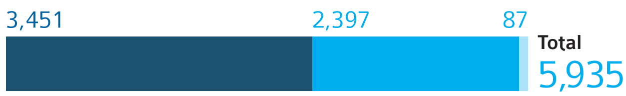
Processes outstanding as at 31 March 2014	Processes completed 2014/15	Processes outstanding as at 31 March 2015
137	1,485	160

Benefit Operations Membership Movement

Member Movements During the Year - Admissions to the Fund

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

Withdrawals from the Fund



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

Complaints

Number of Complaints
The number of complaints processes started in 2014/2015: 66

Management and Financial Performance

Part D: Administrative Management Performance

Employer and Member Satisfaction Statistics

Employers
Data taken from transactional surveys at mid-year review, AGM and employer training sessions completed in 2014/15 as recorded on SurveyMonkey.

87.5% of employers believe we exceed their expectations (good + excellent)

98.4% of employers believe we meet their expectations (satisfactory + good + excellent)

Members
Data taken from 2014/15 satisfaction surveys completed in reception and online at wmpfonline.com, through benefit statements and annual mailings and from member events. As with employer satisfaction, these are all recorded by SurveyMonkey.

87% of members believe we exceed their expectations (good + excellent)

98.4% of members believe we meet their expectations (satisfactory + good + excellent)

Management and Financial Performance

Part D: Administrative Management Performance

Overall Fund Statistical Information

Number of Members

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active	-	-	-	684	4,689	7,023	9,175	10,466	13,875	18,438	18,896
Beneficiary pensioner	10	42	124	243	105	11	13	23	61	174	357
Deferred	-	-	-	41	951	4,361	7,302	8,279	11,083	15,167	16,468
Deferred ex-spouse	-	-	-	-	-	-	-	-	15	35	55
Pensioner	-	-	-	-	-	-	8	21	59	241	621
Pensioner deferred	-	-	-	-	-	-	-	-	-	3	8
Pensioner ex-spouse	-	-	-	-	-	-	-	-	-	-	-
Preserved refund	-	-	-	11	80	225	546	842	1,063	1,488	1,531
Total	**10**	**42**	**124**	**979**	**5,825**	**11,620**	**17,044**	**19,631**	**26,156**	**35,546**	**37,936**

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	13,255	6,096	1,391	262	-	-	-	-	-	-	**104,250**
Beneficiary pensioner	562	862	1,244	1,624	1,884	1,881	1,368	687	173	28	**11,476**
Deferred	13,592	5,508	312	87	30	75	55	18	2	-	**83,331**
Deferred ex-spouse	49	19	-	-	-	-	-	-	-	-	**173**
Pensioner	3,499	14,259	19,489	13,227	9,073	5,791	3,006	1,069	195	29	**70,587**
Pensioner deferred	3	3	-	-	-	-	-	-	-	-	**17**
Pensioner ex-spouse	-	15	20	7	2	3	-	-	-	-	**47**
Preserved refund	1,135	551	47	46	43	23	20	22	4	-	**7,677**
Total	**32,095**	**27,313**	**22,503**	**15,253**	**11,032**	**7,773**	**4,449**	**1,796**	**374**	**57**	**277,558**

Employer Details

A summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding pension liabilities) is given in the table below:

	Active	Ceased	Total
Scheduled body	304	1	305
Admitted body	169	9	178
Total	**473**	**10**	**483**

Internal Dispute Resolution Procedure (IDRP)

During the financial year 2014/2015, 10 cases were received.

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

In total, nine cases were dismissed, and one case remains under investigation.

Management and Financial Performance

Part D: Administrative Management Performance

Overall Fund Statistical Information

Management Performance – Number and Trend of Top Ten Case Types

Processes commenced	...of which, processes completed in 2014/15	...of which, outstanding processes at 31 March 2015	Commenced and completed in the period 2014/15
Joiner processes commenced in 2014/15... 2,932	2,923	9	99%
Refund processes commenced in 2014/15... 1,893	1,545	348	82%
Retirement processes commenced in 2014/15... 2,408	2,396	12	99%
Deferment processes commenced in 2014/15... 5,793	4,824	969	83%
Deferred retirement processes commenced in 2014/15... 1,976	1,935	41	98%
Death-in-service processes commenced in 2014/15... 145	111	34	77%
Death in deferment processes commenced in 2013/14... 117	81	36	69%
Death in retirement processes commenced in 2014/15... 2,385	1,960	425	82%
Maintain member data processes commenced in 2014/15... 12,848	12,755	93	99%
Change of address and/or bank processes commenced in 2014/15... 10,002	9,951	51	99%

Corporate Responsibility

We strive to be a good corporate citizen in alignment with what we expect of the entities in which we invest.

Our People

The ability to recruit, grow and retain talented people in a competitive industry is crucial to the performance of West Midlands Pension Fund. We aim to embed the Fund's goals and values into all areas of our business in order to translate these into easy to understand role requirements and competencies for our staff to achieve which in turn helps our business to develop.

We recruit the best candidates and are successful in retaining talent with many staff members having long careers with the Fund.

We strive to be an excellent employer and are committed to equality, professional development and flexibility for all of our staff.

West Midlands Pension Fund
The Fund has 113 employees as of 31 March 2015 split across Finance, Governance, Investments and Pensions Administration function areas. Within the period, we had 13 new members of staff from different backgrounds and cultures, with a variety of experience in both private and public sector organisations.

We maintain a collaborative and transparent working culture. Staff members have the opportunity to contribute to the direction of the Fund through a Staff Forum group, which meets monthly and has representation from each team within the Fund. Staff have access to the minutes of all team meetings, including the meetings of the Fund's senior management team. Similarly, the Strategic Director of Pensions and her Senior Management Team operate open-door policies and allocate their time regularly for staff drop-in surgeries.

The Fund publishes a code of conduct for its officers. The code of conduct describes the principles by which we expect to conduct our business and provides employees with guidance on the standards expected when conducting businesses on behalf of the Fund. The employee code of conduct can be found on the 'Governance' section of the Fund's website, wmpfonline.com.

The code of conduct draws upon the 'seven principles of public life' to which all public sector employees are expected to adhere. These principles are:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

Further information on these principles can be found on the 'Governance' section of the Fund's website, wmpfonline.com.

2014/15 Achievements

Engagement Survey and Staff Forum
Each year, all employees of the Fund are asked to complete a survey which collects thoughts on what it is like to work in the organisation. The results of this survey are reviewed by the Fund's Senior Management Team who delegate the formulation of an action plan for improvements to the Staff Forum group. Staff Forum engages with their individual teams to gather a rounded set of opinions on various matters including organisational direction, working initiatives and social activities. Staff Forum then present the action plan to all staff through a staff briefing.

Training and Development
During 2014/15, staff at the Fund completed over 1,733 hours of training, covering a mixture of structured training from our internal Training and Development Team, attendance on external training courses and self-guided development (including reading and e-learning).

Some of the training completed in the year included the following important topics:

- Freedom of Information
- LGPS 2014 Scheme Changes
- Wellness at Work
- The Data Protection Act
- Presentation Skills
- Preventing Bullying in the Workplace
- Coaching and Mentoring for Beginners
- Investment and Economic Outlook
- Effective Writing
- Writing for Business
- CIPFA Guidance on Annual Report and Accounts
- Business Continuity Planning

During the year, staff gained some of the following recognised qualifications:

- Governance Public Policy and Events (CIPFA – CPPE)
- Investment Management Certificate (IMC)
- Chartered Financial Analysis (CFA)
- Association of Accounting Technicians (AAT)
- Association of Chartered Certified Accountants (ACCA)

Corporate Responsibility

Our People

Promotions

We were delighted with the opportunity to promote six internal staff members during the year. Internal promotion is very important to the Fund, as it assists with our aim of creating a flexible and multi-skilled work force as staff move through different function areas. We were similarly proud of the seven employees that were also able to build on the skills gained in employment with the Fund and achieve new roles with other companies.

Secondments

Many of our staff also developed new skills and received additional development after gaining secondment opportunities within the organisation and with our administering authority, the City of Wolverhampton Council.

Environmental Performance

The Fund strives to be an environmentally-conscious organisation and employer, and has taken considerable steps in the last financial year to improve our standing in this area.

One of the initiatives that we are most proud of is providing electronic benefit statements for our active and deferred members in 2015. Providing electronic benefit statements for our members will ensure a reduction in annual costs as well as considerable environmental benefits as we reduce paper usage. As of 31 March 2015, less than 0.1% of our members have elected for paper statements.

The Fund's offices also recycle all cardboard, packaging and confidential paper waste. We are working with our corporate landlord to extend the recycling programme to include plastic and aluminium in 2015/16.

We also use Forestry Stewardship Council® (FSC) certified paper in all printed material sent through our mailing partners. In 2015/16, we are investigating use of recycled or FSC® certified paper in all printing material produced by the Fund.

In the past 18 months, our corporate landlord has replaced 90% of the lighting throughout our offices with LED fittings and has also fitted control sensors on the lighting in the toilets, all to reduce energy consumption and maintenance costs. All toilets in our offices now have dual flush systems fitted and the urinals also have timed flushing devices all reducing the consumption of water throughout the building.

Health, Safety and Wellbeing

The Fund is committed to providing a safe and healthy working environment for all of our employees and any stakeholder visiting our place of work. We try to ensure that we:

- reduce and, if possible, eliminate any hazards;
- educate our staff on health and safety and fire awareness;
- prevent injuries at work;
- and comply with all requirements of The Health and Safety at Work Act 1974.

In partnership with our administering authority, the City of Wolverhampton Council, all Fund employees are also able to access a 'wellness at work' programme including:

- subsidised health insurance;
- subsidised gym and leisure club memberships;
- workstation assessments;
- first-aid training;
- free health checks and nutrition sessions;
- access to occupational health.

The Fund also has a robust business continuity plan, which was updated and tested during the period. Staff receive annual training on the content and procedures included in the business continuity plan.

Corporate Responsibility

Our People

Employee Information at 31 March 2015
Understanding the makeup of West Midlands Pension Fund is an important part of our commitment to be an excellent employer. We are proud of the diversity that our organisation displays.

Working pattern

Full time	**77%**
Part time	**23%**

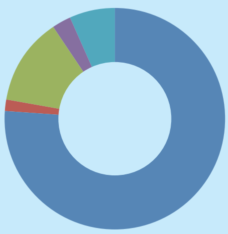
Gender balance of Senior Management Team (SMT)

Male	**60%**
Female	**40%**

Gender balance of investment professionals

Male	**50%**
Female	**50%**

Ethnic profile



White (British/Irish)	**76.1%**
Mixed race	**1.8%**
Asian or Asian British	**12.8%**
Black or Black British	**2.7%**
Chinese or other	**6.5%**

Gender balance of Fund

Male	**31%**
Female	**69%**

Gender balance of team leaders (excluding SMT)

Male	**39%**
Female	**61%**

Return to Work and Retention After Parental Leave (as Primary Care Giver)

Return to work: male	100%
Return to work: female	100%
Retention as at 30 June 2015 after returning in 2014/15: male	100%
Retention as at 30 June 2015 after returning in 2014/15: female	100%

Corporate Responsibility

Our People

Case Study

Meet Leanne Clements, Responsible Investment Officer, West Midlands Pension Fund

Q: You joined the Fund in June 2014. Tell us about your career in the field of responsible investment prior to joining the Fund?

A: Before joining West Midlands Pension Fund as Responsible Investment Officer, I held a similar role at the London Pensions Fund Authority (LPFA) and, before that, I worked at the Pensions & Investment Research Consultants (PIRC) where I worked on the engagement services team on behalf of the Local Authority Pension Fund Forum (LAPFF).

I originally am from Canada and, before moving to the UK, I worked as an environmental consultant for an engineering firm conducting contaminated site investigations for financial clients.

Q: In your role of Responsible Investment Officer for the Fund, how do you allocate your time?

A: The Fund has been active promoting the responsible investment (RI) agenda within the local authority space for many years. However, now that there is a dedicated RI person in place, I usually find myself splitting my time between strategic and reactive days!

On 'strategic days', I focus primarily on:

- updating our in-house voting policy and oversight of our third party voting provider;
- company and policy engagement, primarily through our partnership with the LAPFF;
- fund manager selection/monitoring; and
- reporting & communications.

And on 'reactive days', I spend my time responding to stakeholder queries (including beneficiaries) about our responsible investment approach.

Q: What outcome should all pension funds be looking for in their asset managers?

A: In my view, we should be evaluating their stewardship and environmental, social, governance (ESG) integration activities, how they inform each other and in turn, how both of them inform investment decisions. In my view, these activities should not be an end in themselves but a means to improve risk-adjusted returns over the long term. That is, of course, the ultimate goal.

Q: What steps should pension funds take to get there (ie improve these returns)?

There are plenty of frameworks, checklists and guides out there to help either trustees or officers of pension funds get a snapshot of how effective their asset manager is at stewardship and ESG integration. However, the benchmarking exercise is the easy part, the most challenging bit is how to get asset managers to evolve / improve their approach over a reasonable timeframe.

Let's face it – mainstream asset managers are large, complex organizations with their own shareholders, employees that are predominantly remunerated over short time frames (at least compared to pension fund investment horizons!), and each pension fund represents a very small percentage of its overall client base. So asking for any change in their processes, governance mechanisms, policies or reporting is going to be very challenging. So my first tip is to be prepared to buckle down and stay in it for the long haul! It is important to be realistic so that you can set targets for yourself that are reasonable and achievable. To do that, you need to understand the limitations.

Q: In an ideal world, who would engage companies?

A: In my view (and, believe me, many different answers are given to this question), whoever is making the investment decision is ideally the one that should be engaging with companies.

This could be asset owners with internally managed assets, or asset managers.

Going back to my previous point about the ultimate outcome of improved risk-adjusted returns, if asset owners disconnect the engagement function from the investment decision, then we reduce the likelihood of achieving that long-term goal.

However, I recognize that we are all on a journey with this, and there is a lot of pressure on UK asset owners to be 'effective stewards' of their assets under the Stewardship Code and other soft regulatory drivers – and I can see that each asset owner is interpreting that pressure in different ways.

For example, some asset owners may outsource the management of their assets to external fund managers and the ESG engagement to a third party provider. In itself, this may not be significant as you can use this information to hold your fund managers to account. However, I am concerned when it creates the unintended consequence of not holding the fund manager to account for its RI activities – just because you have outsourced stewardship and thus 'ticked that box' from a compliance perspective. For me, this isn't about compliance, this is about investment.

For more information on the Fund's work in the field of responsible investment (RI), please visit www.wmpfonline.com/ri or contact:
Leanne Clements,
Responsible Investment Officer,
West Midlands Pension Fund at
responsible.investment@wolverhampton.gov.uk

This interview with Leanne first appeared in SRI-CONNECT, the global professional research community for the responsible investment industry.

SRI CONNECT

Corporate Responsibility

Our Community

Charitable Activities
West Midlands Pension Fund was proud to assist its employees in supporting the following local, national and international charities during 2014/15 through a programme of activities including dress-down days, raffles, auctions and cake sales, which raised over £1,800 in total. All charities were chosen by staff members through the Fund's Staff Forum:

Officers from our Investment, Finance and Governance Teams attend local schools and advise children between the ages of 11 and 18 on the varied job roles within the finance sector and the skills and qualifications required for these careers.

Our staff collect clothing, food and toys throughout the year for the support of the local homeless community.

West Midlands Pension Fund attends local jobs fairs to promote the organisation as an excellent regional employer and also employs a local recruitment agency to assist in filling temporary job roles, supporting with employment in the region.

Corporate Responsibility

Our Community

Case Study

Bridges Ventures Sustainable Property Fund: 158 / 170 Edmund Street, Birmingham (office buildings)

West Midlands Pension Fund invests in and subscribes to the values of the Bridges Ventures Sustainable Property Fund.

In 2012, Bridges – in conjunction with their joint venture partner Evenacre – bought two adjacent office buildings in Edmund Street, Birmingham, for £4m.

Although the Grade II-listed properties enjoyed a good location in Birmingham's business district, they had been lying vacant, having previously been occupied by a single tenant for 25 years meaning they were in need of substantial modernisation.

As such, a further £1 million was spent redeveloping the properties, with a particular focus on the introduction of various environmental features:

- photovoltaic solar panels were installed on the roof, providing energy for the building's core areas;
- 'intelligent' LED lighting systems were fitted throughout the properties;
- energy-efficient heating and cooling systems were also installed.

These improvements reduced the building's carbon emissions by more than 40% and improved its Energy Performance Certificate (EPC) rating from D to B.

The improvements resulted in much lower costs for tenants: during the ownership, the service charge went down by 50% to less than £4 per square foot. Similar office space in the city has an average service charge of approximately £5.50 per square foot.

These lower costs helped drive demand. Five tenants moved into 158 Edmund Street within months of the property being marketed, and another two took occupancy in the other building on ten-year leases.

The environmentally-led redevelopment and the demand it created made the buildings an attractive purchase for F&C Asset Management's UK Property Fund, which bought them for £11.65 million last October, reflecting a yield of 5.75%.

Corporate Responsibility

Our Community

Case Study

Bridges Ventures Sustainable Property Fund

West Midlands Pension Fund invests in and subscribes to the values of the Bridges Ventures Sustainable Property Fund.

In conjunction with its joint venture partners, Bridges has now built 14 care homes, three through the Sustainable Property Fund. Each care home provides first-class care facilities, with a focus on sustainable design and construction including consideration of environmental efficiencies.

Reflecting Bridges' emphasis on improving the quality of care in the sector, the developer Castleoak (its partner in the fund) was instrumental in developing the 'Your Care Rating' initiative. Launched in 2011, this annual independently-conducted survey enables care home residents to confidentially air their views on the service they receive. The results are benchmarked, with the intention of helping providers of care homes drive service improvements.

Investment Policy and Performance

Investment Policy and Performance

Investment Strategy

Investment strategy is reviewed annually. The Fund has a long-term investment strategy focusing on three main areas – equities, fixed interest and alternative investments. These are combined to provide diversification and reduce volatility.

A return-seeking strategy is in place with a target total return objective of 6.9% per annum with returns predominantly generated from markets (6.0%) and the balance (0.9%) from active management. The Fund's actual asset allocation as at 31 March 2015 is shown below, compared with the strategic risk bands agreed by the Pensions Committee:

Asset Allocation

Portfolio	Strategic risk bands %	Closing levels %	Closing market value £m
UK equities		9.3	1,059
Global equities		7.5	857
Overseas equities		30.7	3,486
Private equity		11.9	1,351
Total equities	**50.0-70.0**	**59.4**	**6,753**
UK gilts		1.3	150
Specialist fixed interest		3.1	351
Index linked gilts		6.2	710
Corporate bonds		4.7	534
Emerging market debt		2.6	293
Cash		4.8	552
Total fixed interest	**15.0-25.0**	**22.7**	**2,591**
Property		8.3	944
Absolute return		6.2	708
Real assets and infrastructure		3.4	381
Total alternatives	**15.0-25.0**	**17.9**	**2,033**
Total non-equities	**30.0-50.0**	**40.6**	**4,624**
Total	**-**	**100.0**	**11,377**

During the year, the Fund reorganised the structure of its alternative investments and quoted equities allocations. In alternative investments, the holdings in commodities were sold and it was agreed that the hedge fund allocation would be wound down. The allocations to property and infrastructure were increased. In quoted equities, the allocation to global equities was increased and the regional overseas equities allocations were moved to equal fixed weights.

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

Cashflow

The Fund remains cashflow positive. £234 million was received in April 2014 in respect of deficit prepayments and advance employer contributions from employers and in the autumn, £246 million was transferred to Greater Manchester Pension Fund (in cash and gilts) as responsibility for the management of the local probation trust pension assets was rolled into the National Probation Service pension scheme. A net £197 million was invested during the year in equities (predominantly global equities), offset by the receipt of £147 million from the sale of commodities funds. Net distributions amounting to £339 million were received from the private equity portfolio.

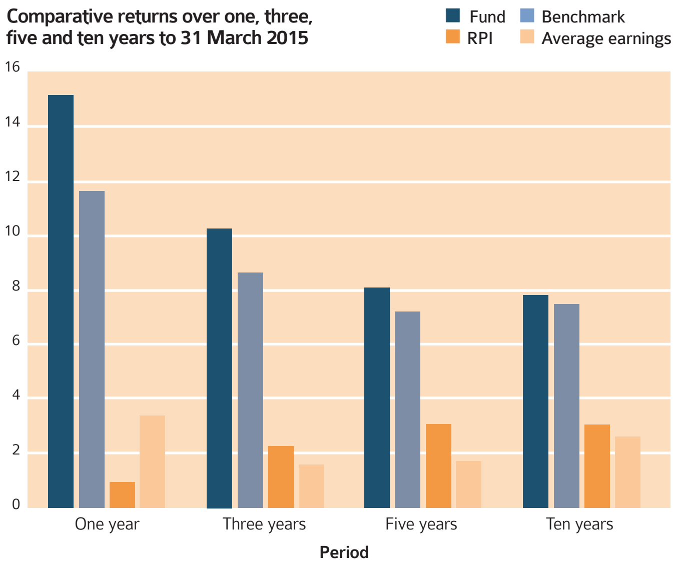
Portfolio	Closing market value £m	£m	Net investment £m
UK equities	1,059		26.2
Global equities	857		219.1
Overseas equities	3,486		-48.6
Private equity	1,351		-174.5
Total equities		**6,753**	**+22.2**
UK gilts	150		-61.4
Specialist fixed interest	351		-12.9
Index-linked gilts	710		-50.0
Corporate bonds	534		0.0
Emerging market debt	293		0.0
Cash	552		286.8
Total fixed interest		**2,591**	**+162.5**
Property	944		-89.3
Absolute return	708		-59.9
Real assets and infrastructure	381		-124.2
Total alternatives		**2,033**	**-273.4**
Total complementary	**4,624**	**4,624**	**-110.9**
Total	**11,377**	**11,377**	**-88.7**

Investment Policy and Performance

Investment Performance

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

Comparative returns over one, three, five and ten years to 31 March 2015



Short-term (one year)

In the year to 31 March 2015, the Fund delivered a return of 15.1%, well ahead of its bespoke benchmark of 11.6%. The main contributors to the outperformance were good relative performances from the private equity and absolute return portfolios. This was offset in part by underperformance in fixed interest (following a strong 2013/14) and in some parts of the quoted equities portfolio (notably emerging markets).

Medium-term (three to five years)

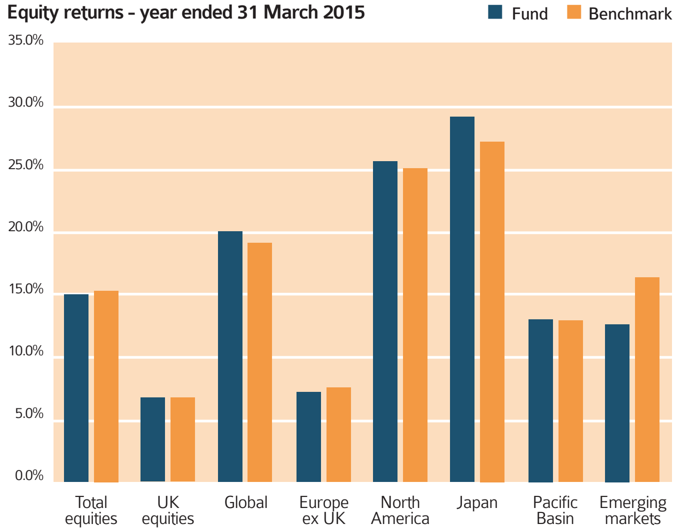
A return of 10.2% per annum was achieved by the Fund in the three years to 31 March 2015, ahead of the bespoke benchmark return of 8.6%. Strong performances from quoted equities and private equity were the key contributors over this time period.

Long-term (ten years)

The Fund's ten-year return of 7.9% per annum was usefully ahead of the benchmark return of 7.5% and well ahead of increases in RPI and average earnings.

Quoted Equities

Equity returns - year ended 31 March 2015

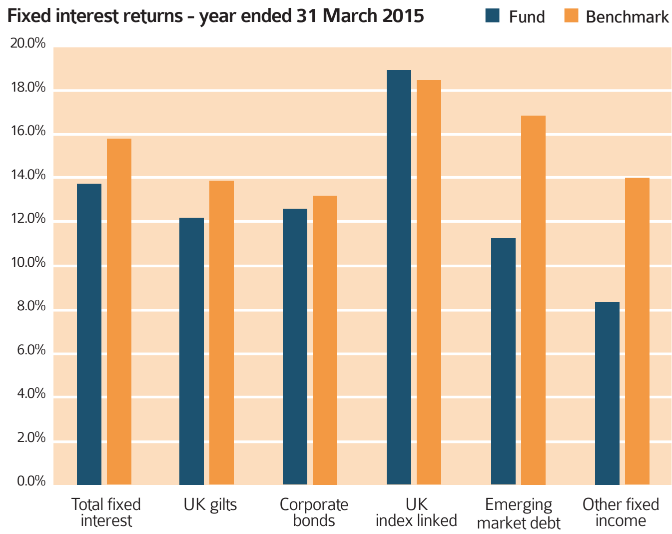


Developed markets equities posted positive returns, with North America (aided by US dollar strength) and Japan faring notably well. The UK and Europe posted fairly modest returns.

The Fund's quoted equities portfolio marginally underperformed, with a return of 14.9% achieved compared with a benchmark return of 15.2%. Most areas performed satisfactorily in relative terms and the emerging markets equities portfolio was the main contributor to underperformance, lagging in a strongly rising market.

Fixed Interest Returns

Fixed interest returns - year ended 31 March 2015



Fixed interest markets had a strong year (following a difficult 2013/14) with most segments posting double-digit returns.

The Fund's fixed interest portfolio underperformed, posting a return of 13.8% compared with a benchmark return of 15.9%. The emerging market debt allocation was a laggard and the specialist fixed interest funds (which performed well in 2013/14) were largely responsible for the underperformance.

Investment Policy and Performance

Alternative Investment Returns

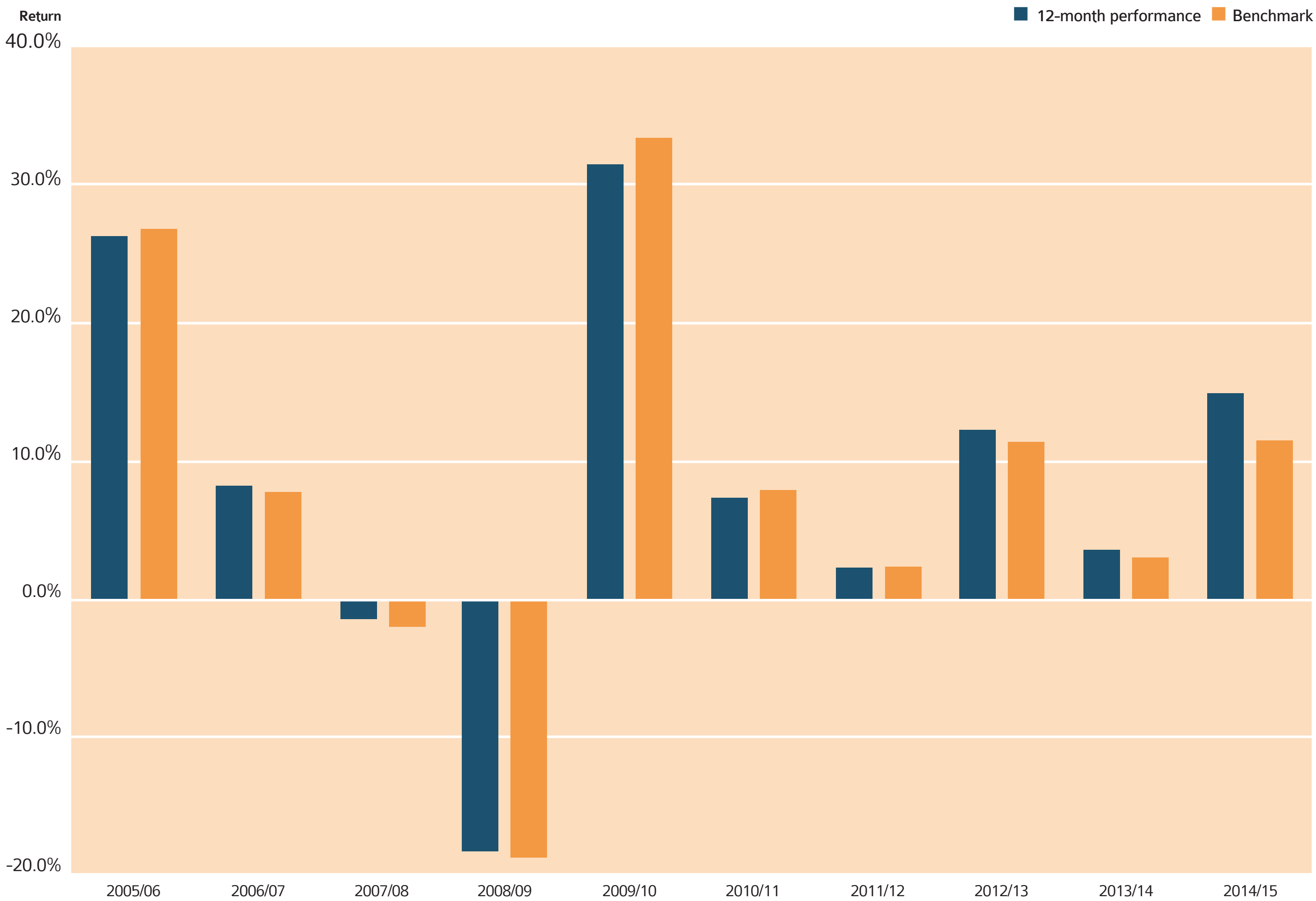
The alternative investments portfolio delivered a strong return in 2014/15 but within the overall picture there were significant variations. The private equity portfolio achieved a return of 24.6%, reflecting profitable distributions in a very favourable market environment. It was another good year for property but whilst the Fund's directly held property posted a respectable return of 12.8% the indirect holdings – mainly overseas – delivered a relatively dull 8.8% return.

The commodities portfolio was sold in the year, ensuring that the Fund was not unduly exposed to the sharp falls in commodities prices. This part of the portfolio delivered a return of -12.2% compared with the benchmark return of -32.9%. In absolute return, a 20.2% return was delivered with most segments faring well, notably insurance-linked funds.

Mark Chaloner
Assistant Director - Investments,
West Midlands Pension Fund
Date: June 2015

Alternative investment returns - year ended 31 March 2015

Annual Performance versus Benchmark 2005/06 - 2014/15

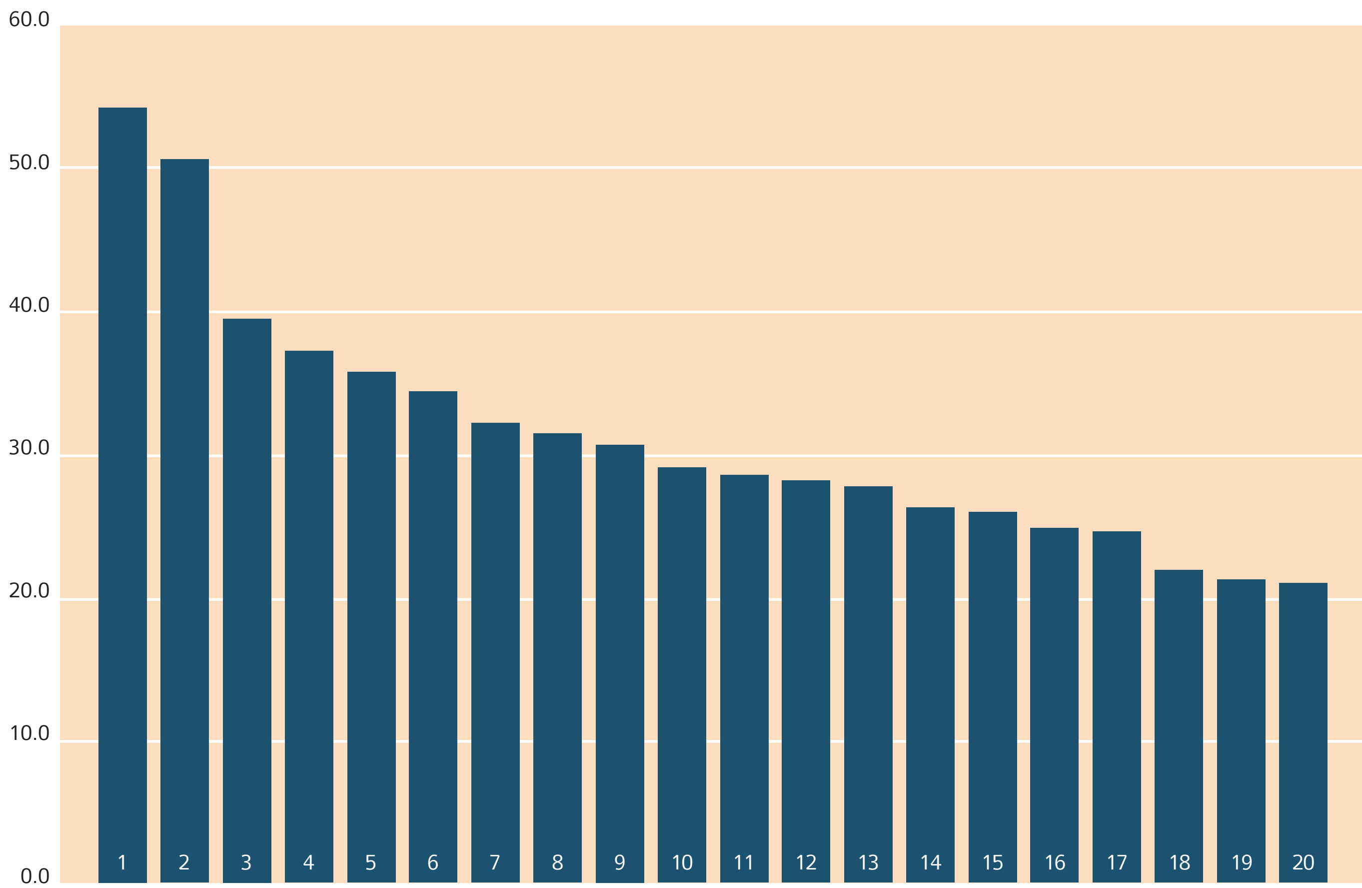


Investment Policy and Performance

Top Twenty Equity Holdings

No.	Stock	Fund value GBP £m
1	HSBC	54.4
2	Royal Dutch Shell 'B'	50.8
3	BP	39.6
4	GlaxoSmithKline	37.3
5	Nestlé	35.8
6	Novartis	34.2
7	British American Tobacco	32.1
8	Apple Inc.	31.5
9	Diageo	30.8
10	Vodafone Group	29.1
11	AstraZeneca	29.0
12	Roche	28.6
13	Reckitt Benckiser	27.7
14	Samsung Electronics	26.4
15	AIA	26.0
16	Unilever	24.9
17	Toyota	24.6
18	Commonwealth Bank of Australia	21.8
19	Prudential	21.2
20	Lloyds Banking Group	21.0

Total investment assets £11.4bn



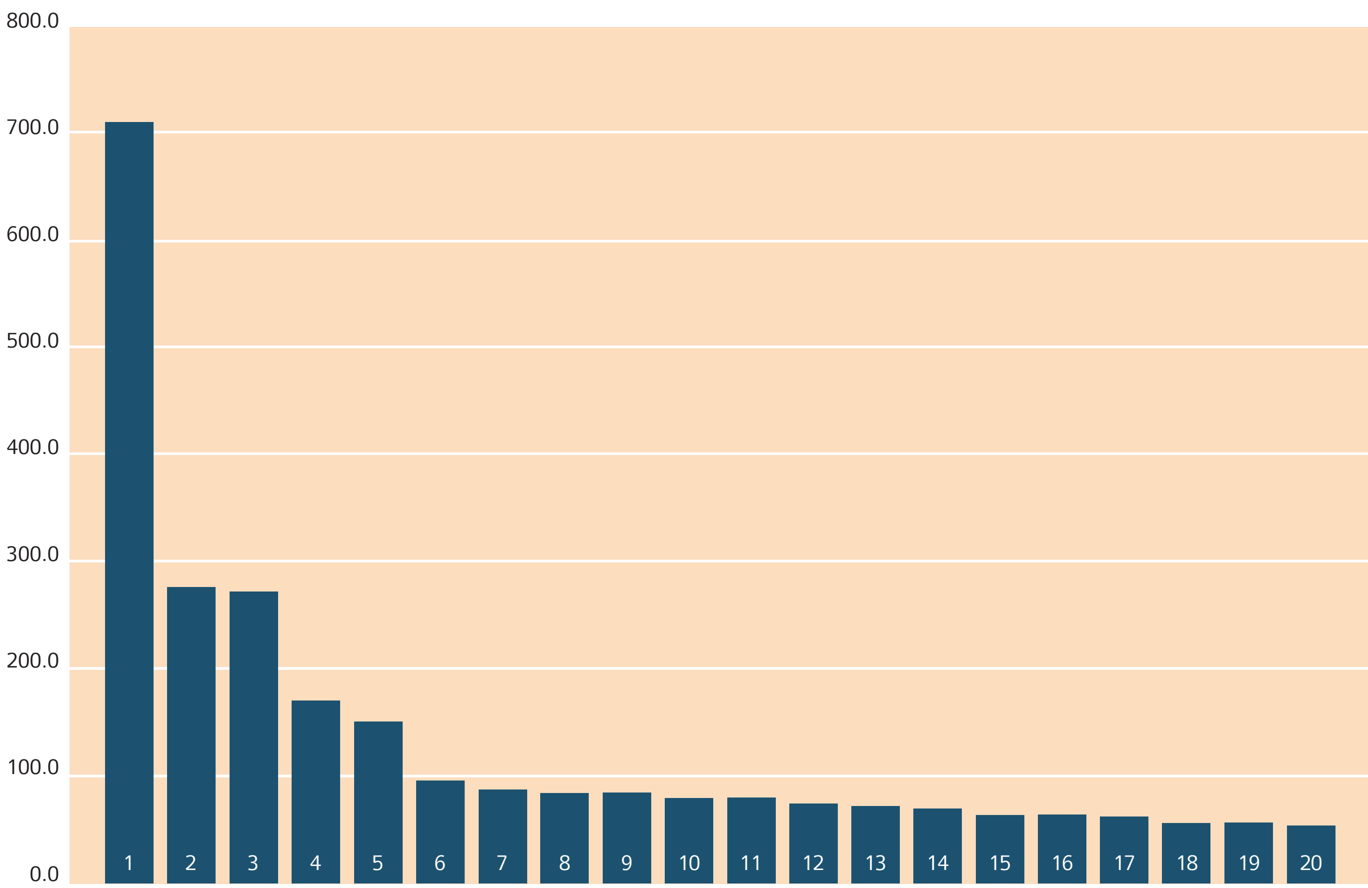
Investment Policy and Performance

Top Twenty Indirect Holdings

No.	Stock	Fund value GBP £m
1	Legal & General - All Stocks Index Linked Gilts Fund	709.9
2	Schroder All Maturities Bond Fund	276.9
3	Blackrock Aquila Life World ex UK Equity Index Fund	270.6
4	Blackrock Global Composite Fund	169.3
5	Legal & General All Stocks Gilts Index	150.5
6	CATCo Diversified Fund	96.9
7	Aspect Diversified Fund	88.2
8	CF Ruffer Total Return Fund	84.5
9	Capital Dynamics Asia	84.4
10	Legal & General Overseas Bond Fund	80.2

No.	Stock	Fund value GBP £m
11	Pioneer Emerging Market Debt Fund	79.5
12	Ashmore Emerging Markets Liquid Investment Portfolio	75.5
13	Capital International Emerging Markets Fund	75.4
14	Legal & General Invt Grade Cp Bnd All Stks Ind	70.8
15	Credit Suisse IRIS Balanced Fund	63.0
16	Bluebay Emerging Market Opportunity Fund	63.0
17	Advent Global Phoenix Convertible Fund	56.6
18	Highbridge Specialty Loan Fund III	56.4
19	BlueCrest Mercantile Fund	54.0
20	Baillie Gifford Diversified Growth Fund	53.8

Total investment assets £11.4bn



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

31 March 2014 Market value £m	31 March 2014 % of total market value	Security	31 March 2015 Market value £m	31 March 2015 % of total market value
639.1	6.3	Legal & General - All Stocks Index-Linked Gilts Fund	709.9	6.2

Investment Policy and Performance

Planned Asset Allocation

The Fund's actual asset allocation as at the beginning of the financial year, compared to allocation bands, was as follows:

Portfolio	Strategic risk bands %	Closing levels % 31 March 2014	Market value £m 31 March 2014
UK equities		10.0	1,004
Global equities		5.2	526
Total overseas equities		30.7	3,100
- North America		9.7	979
- Continental Europe		6.7	678
- Pacific ex Japan		4.1	414
- Japan		1.8	183
- Emerging markets		8.4	846
Private equity		12.3	1,240
Total equities	**45.0-65.0**	**58.2**	**5,870**
UK gilts		1.9	192
Specialist fixed interest		3.3	337
Index-linked gilts		6.3	639
Corporate bonds		4.8	481
Emerging market debt		2.6	264
Cash		2.6	264
Total fixed interest	**15.0-25.0**	**21.5**	**2,177**
Property		9.2	928
Absolute return		6.3	642
Real assets and infrastructure		4.8	483
Total alternatives	**20.0-30.0**	**20.3**	**2,053**
Total non-equities	**35.0-55.0**	**41.8**	**4,230**
Total	**-**	**100.0**	**10,100**

Stewardship Code

The Fund's adherence to the UK Stewardship Code is detailed on the Fund's website
http://www.wmpfonline.com/CHttpHandler.ashx?id=4650&p=0-

Investment Administration

The Fund's assets are managed by both internal and external fund managers. The passive UK and overseas equities portfolios are managed in-house by the Portfolio Manager - Equities. Other portfolio managers oversee the management of the remainder of the investment portfolio which includes active global equities mandates, a private equity portfolio, a fixed interest portfolio that comprises stabilising and return-seeking components, allocations to property (direct and indirect), infrastructure and an absolute return portfolio. Non-equity investments are mainly held in funds managed by external managers with fund selection and performance management monitored internally.

The Fund's equities managed internally and externally (within segregated mandates) are held by our global custodian, HSBC. All Fund investments are accounted for in-house on our investment accounting system.

Analysis of Fund Assets at the Reporting Date

The Fund's assets at 31 March 2015 are detailed in the table below:

	UK £m	Non-UK £m	Total £m
Equities	1,248.8	5,504.7	6,753.5
Bonds	1,745.4	293.3	2,038.7
Property (direct holdings)	656.4	-	656.4
Alternatives	815.6	561.5	1,377.1
Cash and cash equivalents	459.9	91.9	551.8
Total	**4,926.1**	**6,451.4**	**11,377.5**

Note that the total value excludes dividends and outstanding withholding tax of £44.3m.

Investment Policy and Performance

Responsible Investment

Introduction
The Fund has had a longstanding commitment to responsible investment (RI). Its RI objective is to encourage environmental, social and governance (ESG) best practice in the companies in which it invests, as the Fund believes it will aid in the protection of its long-term value. For further details on our overarching approach including our Responsible Investment Framework, please refer to the RI section of the Fund's website: http://www.wmpfonline.com/ri.

2014/2015 Achievements
The Fund has adopted the UN-backed Principles for Responsible Investment (PRI)[1] as a framework to advance in its RI approach and to identify priority areas. Key achievements in our RI strategy during the year under review include the following:

- Recruitment of a dedicated Responsible Investment Officer to advance the Fund's RI approach;
- Update of UK voting policy;
- Creation of 'responsible investment beliefs' as approved by Pensions Committee in December 2014;
- Improved responsible investment disclosure on the Fund's website;
- Appointment of the Fund's Assistant Director (Investments) on the PRI Board;
- Key contributor to the landmark *Guide to Responsible Investment Reporting in Public Equity*;
- Dedicated responsible investment training and informative sessions for trustees, employers and internal staff;
- Updating of RI policy documents, including the creation of a climate change position statement;
- Co-filing shareholder resolutions at BP and Shell respectively, both of which received unprecedented official support from company management; and
- Shortlisted for RI reporting award amongst the global asset owner community.

The Fund's RI efforts over the course of the year were rewarded with a significantly improved PRI assessment score.

Active Ownership
Over the last twelve months ending 31 March 2015, the Fund voted 2,669 shareholder meetings opposing more than 28% of all resolutions. The Fund supported management on all resolutions at 224 meetings. A breakdown of the Fund's voting behaviour for these meetings across markets and issues is provided on pages 47 and 48.

Over the last twelve months ending 31 March 2015, the Local Authority Pension Fund Forum (LAPFF) engaged with various companies on a range of environmental, social and governance issues on behalf of the Fund and other members. Where applicable, LAPFF will engage with companies on more than one issue simultaneously.

A summary of LAPFF's engagement program over the course of the year by market, theme, outcomes and activities is provided on page 49.

Key Voting and Engagement Highlights

A summary of the key voting and engagement highlights throughout the course of the year are highlighted below.

Annual Report and Accounts
Approximately 2.5% of the Fund's votes against management across all companies were against the report and accounts. Key reasons for voting against the report and accounts were:

- failure to put the final dividend to a vote;
- insufficient corporate responsibility/sustainability policies; and
- poor disclosure, especially relevant in emerging markets

Election of Directors
Approximately 47.3% of the Fund's votes against management across all companies were against directors. Key reasons for voting against were that the proposed director:

- was a non-independent director on a board with insufficient independence;
- served on too many boards or committees, which raises concerns about their ability to exercise sufficient oversight; and
- was being held to account for egregious corporate governance concerns as chair of the relevant committee or board (eg, remuneration, board independence, audit function, etc).

Remuneration Reports
Approximately 15.4% of the Fund's votes against management across all companies were against remuneration reports or policies. The main reasons were:

- excessive quantum of pay;
- a disconnect between pay and performance;
- insufficient disclosure; and
- poor contractual arrangements (eg, termination, etc).

Auditors
Approximately 7% of the Fund's votes against management across all companies were against the auditors of the report and accounts. The main reasons were:

- maximum allowed tenure was exceeded; and
- excessive non-audit fees which may compromise the auditor's independence.

Shareholder Resolutions and Climate Change
The Fund will generally vote for the following shareholder resolutions:

- Requiring a majority vote for the election of directors.
- The election of an independent chairman.
- Annual director elections.

[1]More details can be found here: http://www.unpri.org

Investment Policy and Performance

Responsible Investment

For environmental and social resolutions, the Fund normally takes a case-by-case approach, but does take into account the following considerations:

- Whether the proposal is in the long term interests of shareholders.
- Whether the proposal is too prescriptive or not well-articulated.
- Whether the company has sufficiently addressed the concern based on the Fund/PIRC's analysis.

The Fund registered 96% support for US shareholder resolutions on climate change related issues over the course of the year. The Fund also co-filed a shareholder resolution with BP and Shell asking the company for further disclosure in its annual report on its future strategy as it relates to the transition to a low carbon economy. On behalf of the Fund, LAPFF met with the BP chairman to discuss the company's carbon management strategy and the proposed shareholder resolution.

Reputational Risks
The Fund has actively responded to stakeholder queries regarding its investment approach through its active ownership approach of engaging with companies, to either improve corporate behaviour or achieve a greater understanding of their stance on the issue.

Market-Related Initiatives
There are impediments to exercising the Fund's voting rights which it actively seeks to address. This includes the practice of share blocking in certain markets, whereby one cannot trade in company shares when voting, or cumbersome share re-registration procedures. Further, the Fund cannot always be sure that its vote reaches the company correctly or indeed at all. The Fund is actively working with key stakeholders, primarily custodians, to address these shortcomings, but is anticipated to be a long-term project done in collaboration with other like-minded investors.

ESG Integration
Below are some examples of how the Fund has strived to integrate ESG – where relevant – across its asset classes over the course of the year. The Fund believes that it is important that the external fund managers which it employs be transparent and accountable to their asset owner clients regarding their responsible investment policies and activities. The Fund will continue to build upon its approach to fund manager selection, appointment and monitoring in the future.

External-Listed Equities
The Fund has contributed to and fully endorses the 2015 *Guide to Responsible Investment Reporting in Public Equity* http://www.wmpfonline.com/article/5708/Engagement-through-partnerships, a platform from which to communicate its expectations of listed equity fund managers and other applicable asset classes over the course of the forthcoming year.

UK Direct Property
The Fund has been working with its direct UK property manager, CBRE, to address the risk in its direct property portfolio presented by the Energy Act 2011 which stipulates that from 2018, it will be prohibited to lease a building with poor energy performance (F & G rated properties).

To address this risk, a mitigation strategy is being developed. In summary, of the 280 units requiring EPCs, 216 units are A-D rated and therefore considered low risk. The remaining 64 units are deemed at risk from the upcoming legislation, having either EPC ratings of E or below, or no current EPC rating.

The EPC risk mitigation strategy varies for each unit based on the known EPC rating, the lease end date of the tenancy in place, the cost to improve the unit and the overall asset strategy for the site. Work is currently underway to create a bespoke strategy for each unit, to be completed by the end of May 2015, in order to ensure 2018 compliance.

Tenant engagement is an important part of the Fund's approach to direct property investment. This goes beyond environmental issues as experience clearly shows that staying close to tenants and responding, where possible, to their changing requirements is beneficial to the performance of the portfolio. Cashflow and values are maximised and income voids kept to a minimum. The Fund is in the early stages of planning its tenant engagement program.

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

An overview of the Fund's environmental and social-themed investments is provided below.

Overview of Environmental and Social-Themed Investments

Mandate	Description
Infrastructure	
Hg Renewable Power Fund	Invests in sustainable energy projects and companies in Europe.
Impax	
Blackstone	Targets promising companies across the spectrum of environmentally-friendly technologies.
Property	
Igloo Regeneration	Invests in UK mixed-use real estate through sustainable place-making in partnership with the public sector and local communities.
Bridges Sustainable Property Fund	Invests in properties in regeneration areas and environmentally sustainable buildings.

Investment Policy and Performance

Responsible Investment

Private equity	
Bridges Sustainable Growth Funds	Invest in a broad range of sectors such as healthcare, education, leisure, consumer, manufacturing and business and financial services with a social or environmental underpin.
Virgin Green	Invest in companies in the renewable energy and resource efficiency sectors in the US and Europe
Climate Change Capital	The strategy is to earn carbon credits by investing in clean technology in developing countries and to sell these carbon credits forward on CO2 exchanges.

Case Study: Investing in clean energy for developing countries

Ventika Wind Farm

West Midlands Pension Fund invests in and subscribes to the values of this clean energy venture by Blackstone Group.

The Ventika Project is comprised of two 126 megawatt (MW) wind farms with total capacity of 252MW. Located in the northeastern Mexican state of Nuevo Leon, approximately 35 miles from the United States border, Ventika will, upon completion, become Mexico's largest onshore wind farm and one of the largest wind farms in Latin America. The location was chosen due to the favourable onshore wind conditions.

The $640 million project is being jointly developed by CEMEX, a global building materials company with presence in more than 50 countries, and Fisterra Energy. The investment funds the installation of 84 wind turbine generators, each with a hub height of 120 metres and a nominal output of 3MW per turbine. Ventika Project will also construct a 230kV substation, which will include two main power transformers, and 8.8 miles of double circuit transmission lines connecting Ventika Project's substation with the CFE interconnection switchyard.

Construction of the project, which is scheduled to be completed in 2016, is expected to generate approximately 1,000 jobs and more than 2,000 additional jobs in related industries.

Nuevo Leon

Ventika Wind Farm

Once completed, the project will alleviate increased demands on Mexico's existing power infrastructure, helping Mexico reduce pollution and CO2 emissions, and meet its target of achieving 35% renewable generation by 2025.

Investment Policy and Performance

Responsible Investment

Measuring the Social and Environmental Impact of Investments
Social and environmental impact, beyond the immediate footprint of investee companies, is rarely measured within the investment management community at present. This is particularly challenging in 'fund of fund' arrangements. However, some investors are now actively looking beyond the positive impact for the company itself to the environmental and social impact that may be felt locally, regionally or even globally. The Fund believes such measurement within our environmental and social themed investments (and even beyond to other asset classes) is important for the following reasons:

- To communicate the social or environmental performance of investments to external stakeholders.
- To ensure the investments are not supporting poor practices that could lead to reputational risk.
- To improve the environmental or social impact of its investments.

Since the measurement of such factors in investments is still in its infancy, we will work with our fund managers to improve the level of disclosure provided to the fund regarding the impact of their investments.

Outlook for 2015/2016
The Fund is committed to evolving in its approach over the forthcoming years. The Fund also believes that transparency and accountability is an important part of its fiduciary duty to its members. The following commitments were made as part of the Fund's annual review to its employers regarding its RI approach:

- Review voting and company engagement arrangements/policies.
- Continue to embed ESG issues into investment process, including a Fund manager monitoring program (quoted/unquoted).
- Continue to improve responsible investment reporting: website, annual reporting.
- Continue to raise internal and external profile of Fund as responsible investor.

Investment Policy and Performance

Voting Summary

Total

Support management	68.25%
Against management	31.75%

UK

Support management	79.39%
Against management	20.61%

Europe

Support management	67.85%
Against management	32.15%

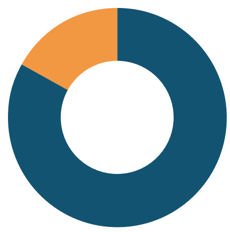
USA and Canada

Support management	60.48%
Against management	39.52%

Asia

Support management	48.02%
Against management	51.98%

Japan



Support management	83.24%
Against management	16.76%

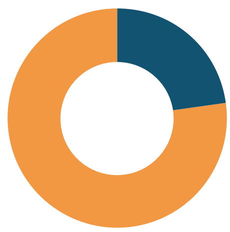
Australia/New Zealand/South Africa

Support management	57.10%
Against management	42.90%

South America

Support management	51.83%
Against management	48.17%

Rest of the World

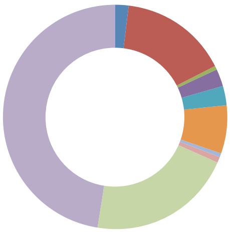


Support management	22.85%
Against management	77.15%

Investment Policy and Performance

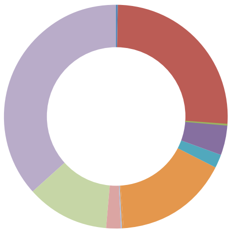
Voting Summary

Total



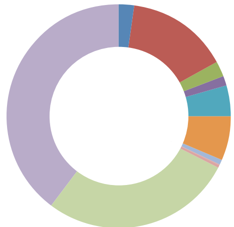
Shareholder resolution	2.21%
Remuneration	15.36%
Share capital	0.60%
Annual report	2.40%
Articles of association	2.96%
Auditors	6.95%
Corporate actions	0.59%
Corporate donations	0.63%
Other	21.00%
Directors	47.30%

UK



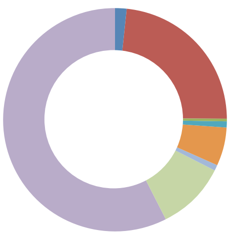
Shareholder resolution	0.24%
Remuneration	25.73%
Share capital	0.15%
Annual report	4.40%
Articles of association	1.85%
Auditors	16.54%
Corporate actions	0.39%
Corporate donations	2.16%
Other	11.82%
Directors	36.72%

Europe



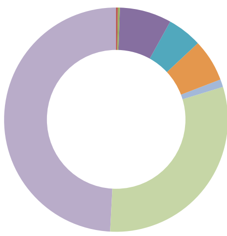
Shareholder resolution	2.30%
Remuneration	14.89%
Share capital	2.15%
Annual report	1.48%
Articles of association	4.22%
Auditors	6.55%
Corporate actions	0.67%
Corporate donations	0.13%
Other	27.95%
Directors	39.66%

USA and Canada



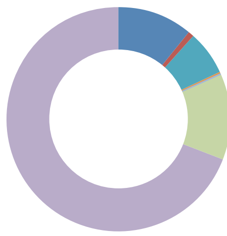
Shareholder resolution	1.71%
Remuneration	23.36%
Share capital	0.10%
Annual report	0.00%
Articles of association	0.97%
Auditors	5.78%
Corporate actions	0.60%
Corporate donations	0.00%
Other	10.13%
Directors	57.35%

Asia



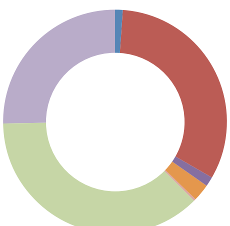
Shareholder resolution	0.00%
Remuneration	0.36%
Share capital	0.44%
Annual report	7.40%
Articles of association	4.91%
Auditors	6.23%
Corporate actions	1.03%
Corporate donations	0.00%
Other	30.48%
Directors	49.15%

Japan



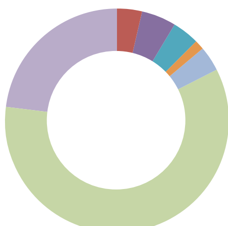
Shareholder resolution	10.97%
Remuneration	0.83%
Share capital	0.00%
Annual report	0.00%
Articles of association	6.51%
Auditors	0.10%
Corporate actions	0.10%
Corporate donations	0.00%
Other	12.41%
Directors	69.08%

Australia/New Zealand/South Africa



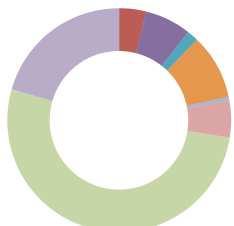
Shareholder resolution	1.35%
Remuneration	32.14%
Share capital	0.00%
Annual report	1.32%
Articles of association	0.00%
Auditors	2.56%
Corporate actions	0.00%
Corporate donations	0.33%
Other	37.10%
Directors	25.20%

South America



Shareholder resolution	0.00%
Remuneration	3.80%
Share capital	0.00%
Annual report	5.06%
Articles of association	3.80%
Auditors	1.27%
Corporate actions	3.80%
Corporate donations	0.00%
Other	59.49%
Directors	22.78%

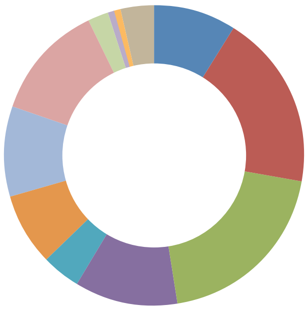
Rest of the World



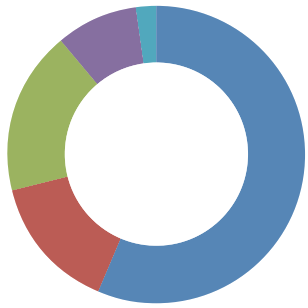
Shareholder resolution	0.00%
Remuneration	4.15%
Share capital	0.00%
Annual report	6.60%
Articles of association	1.70%
Auditors	9.43%
Corporate actions	0.38%
Corporate donations	5.47%
Other	51.89%
Directors	20.38%

Investment Policy and Performance

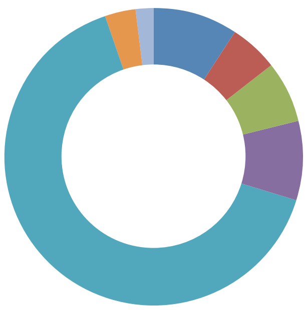
LAPFF Engagement Summary



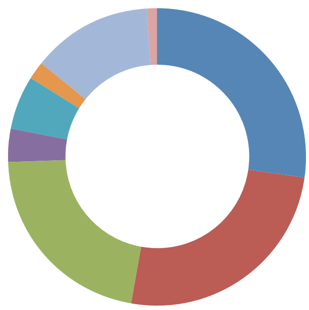
Issue	%
Governance (general)	9.10
Climate change	18.88
Remuneration	19.58
Employment standards	11.19
Finance & accounting	4.20
Board composition	7.69
Human rights	9.79
Reputational risk	12.59
Environmental risk	2.10
Fracking	0.70
Tax	0.70
Palm oil	3.50



Domicile	%
United Kingdom	56.44
United States	14.85
Europe	17.82
Asia Pacific	8.91
Emerging markets	1.98



Outcomes	%
Moderate improvement	9.40
Satisfactory response	5.13
Substantial improvement	6.84
Awaiting response	8.55
Dialogue	64.96
Small improvement	3.42
No improvement	1.70



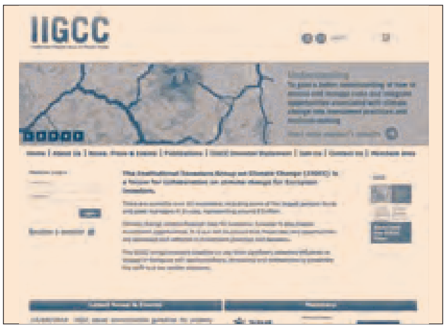
Activities	%
Sent letter	27.36
Meeting	25.47
Attended AGM	21.70
Conference call	3.77
Responses received	5.66
Resolution filed	1.89
Alert issued	13.21
Conference call	0.94

Investment Policy and Performance

List of Bodies of Which the Fund is a Member

National Association of Pension Funds (NAPF)

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

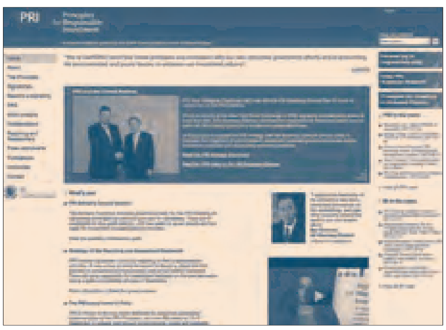


Institutional Investors Group on Climate Change (IIGCC)

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

Local Authority Pension Fund Forum (LAPFF)

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



United Nations Principles for Responsible Investment (UNPRI)

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

Investment Policy and Performance

Assets Held as at 31 March 2015

West Midlands Pension Fund holds a wide range of assets in accordance with its investment strategy set out in its *Statement of Investment Principles*. Details of the assets held are as follows:

1 Quoted Equities

The Fund has direct major holdings of quoted equities in the UK, US, Europe, Japan and Pacific Basin. The number and amount of individual stocks held will vary according to investment decisions taken on a day-to-day basis, but it is likely at any point in time the Fund will hold over 1,800 stocks. In respect of the UK, US, Europe, Pacific Basin and Japan, the Fund will hold the majority of the significant quoted stocks as reflected in the major stock market indices.

Internal Funds

- Europe ex UK Equity Index Fund
- Japan Equity Index Fund
- North America Equity Index Fund
- Pacific Basin ex Japan Active Equities Fund
- UK Equity Index Fund

2 Equities Funds

The Fund also has interests in the following funds:

- Baillie Gifford Global Opportunities Fund
- Blackrock Global Active Equity Strategy
- Legal and General UK Smaller Companies Index Fund

3 Specialist Vehicles

The Fund has interests in the following specialist vehicles:

Real Assets and Infrastructure

- Alterna Core Capital Asset Fund
- AMP Capital Asian Giants Infrastructure Fund
- Aqua Resources Fund
- Arcus European Infrastructure
- Barclays European Infrastructure Fund
- Blackstone Cleantech Ventures
- EISER Infrastructure Capital Equity Partners
- EQT Infrastructure Fund
- First Reserve Energy Infrastructure Fund
- Global Infrastructure Partners
- Goldman Sachs International Infrastructure Fund
- Henderson PFI Secondary Fund
- Hg Renewable Power Partners
- Impax Energy
- Impax New Energy Fund II
- Infracapital Partners
- Innisfree PFI Secondaries
- Insight Global Farmland Fund
- JPMorgan Asian Infrastructure & Related Resources Opportunity Fund
- Khosla Ventures
- PIP Dalmore
- Riverstone/Carlyle Renewable Energy Fund II
- SteelRiver Infrastructure Fund North America
- Waste Resources Fund

Absolute Returns

- Aspect Diversified Fund
- Baillie Gifford Diversified Growth Fund
- BlueCrest Mercantile Fund
- Capula Global Relative Value Fund
- CATco Series A
- CATco Series B
- CATco Series B 15 SP 2014
- CATco Series E 8 SP 2014
- CF Ruffer Total Return Fund
- Coriolis Horizon Fund
- Credit Suisse IRIS Fund
- Davidson Kempner International
- Dorchester Capital Secondaries Offshore Fund
- Dorchester Capital Secondaries Offshore Fund II
- Dorchester Capital Secondaries Offshore Fund III
- Finance Birmingham Ltd
- Goldman Sachs Opportunities Fund
- Oak Hill Advisors Strategic Credit Fund
- Oaktree Principal Fund V
- Sciens Aviation Special Opportunities Offshore Fund
- Sciens Aviation Special Opportunities Offshore Fund II
- Taconic

Emerging Market Debt

- Ashmore EMLIP
- Bluebay Feeder Funds Emerging Market Opportunity Fund
- Capital International Emerging Market Debt Fund
- Pioneer Emerging Market Debt Fund

Commodities

- Black River Agriculture Fund 2

Property

- AEW European Property Investors Special Opportunities Fund
- AEW Value Investors Asia
- Beacon Capital Strategic Partners VI
- Blackrock Global Real Estate Fund
- Blackrock Residential Opportunities Fund
- Bluehouse Accession Property III
- Bridges Property Alternatives III
- Bridges Sustainable Property Fund Unit Trust
- Dune Real Estate Fund II
- Goldman Sachs Developing Markets Real Estate
- Goldman Sachs Whitehall International 2008
- High Street Equity Advisors Fund III
- Igloo Regeneration Partnership
- Kames Capital Property Unit Trust
- Mansford UK Feeder A
- Morgan Stanley Real Estate Fund VII
- Morgan Stanley AIP Phoenix Fund
- Phoenix Asia IV Limited
- Phoenix Asia V Ltd
- Pramerica PLA Residential III
- Rockspring Pan European Property Ltd (PEPLP)

Investment Policy and Performance

- Rockspring Peripheral Europe Ltd (PELP)
- RREEF European Value Added Fund
- Silk Road Asia Value Partners
- Sveafastigheter Fund III AB
- Vision Brazil Real Estate Opportunities Fund I
- Vision Brazil Real Estate Opportunities Fund II

Money Market
- AIM Global Sterling Fund
- HSBC Sterling Liquidity Fund
- NatWest Liquidity Select Account

Fixed Interest
- Advent Global Phoenix Convertible Strategy Fund
- GS Mezzanine Partners V, L.P.
- Highbridge Mezzanine Fund
- Highbridge Speciality Loan Fund III
- Indigo Capital IV, L.P.
- Indigo Capital V, L.P.
- Jupiter Convertibles
- Legal & General Gilts
- Legal & General Index Linked Gilts
- Legal & General Invt Grade Cp Bnd Fund
- Legal & General Overseas Bonds
- Newton Global Dynamic Fund
- Park Square Cap Ptnrs II
- Prudential/M&G UK Companies Financing Fund
- Royal London Asset Management
- Schroder Corporate Bond Fund

The Fund also has funds on a segregated basis with the following managers:

- AGF International Advisors - Global Emerging Market Equities
- F&C Management - Global Emerging Market Equities
- MFS Investment Management - Global Equities
- Mondrian Investment Partners - Global Emerging Market Equities
- Royal London Asset Management

4) Private Equity

The Fund has investments in a significant number of private equity holdings, a full listing of which is available on the Fund's website at wmpfonline.com

5) Properties

Agricultural
- Backford & Wincham Estate
- Butlers Marston Estate
- Cleveland Estate
- Stagsden Land

Industrial
- Basingstoke (West Ham Industrial Estate)
- Birmingham (Merlin Park)
- Birmingham (Midpoint Park)
- Birmingham (Premier House)
- Bristol (Kingswood Industrial Estate)
- Edinburgh (S.Gyle Cr. Lane)
- Hayes (Elystan BC Unit)
- Horsham (Parsonage Way)
- Leicester (Meridian Business Park)
- London (Powergate Business Park)
- Manchester (Northbank Industrial Estate)
- Southampton (Canberra Rd)
- Weybridge (Brooklands Industrial Estate)

Offices
- Bath (Manvers St)
- Birmingham (Newhall St)
- Crawley (Birchmead)
- London (Lower Regent St)
- London (Wardour St)
- London (Whitfield Street)
- Manchester (Byrom St)
- Manchester (Quay St)
- Reading (Thames Valley Five)
- Uxbridge (Otter House)
- Warwick (Warwick Tech Park)

Supermarkets
- ASDA (Great Barr)
- Morrisons (Wood Green)
- Tesco (Hattersley)

Retail Warehouses
- Birmingham (The Fort)
- Clifton Moor
- Hayes (Uxbridge Road Retail Park)
- Pontefract (Racecourse Retail Park)
- Oxford (Botley Road)

Shopping Centres
- Bury St Edmunds (ARC)

Shops
- Brighton (Western Road)
- Glasgow (Buchanan Street)

6) Fixed Income

A range of government and company bonds are held, the content varying according to market conditions and investment policy.

Scheme Administration Report

Scheme Administration Report

2014/15 saw the implementation of the new career-average revalued earnings (CARE) scheme with effect from 1 April 2014. The amendments made by the Department for Communities and Local Government (DCLG) to the LGPS Regulations in relation to the CARE scheme were embraced by the Fund, despite the challenges in practically applying the changes due to the date of delivery and implementation of the complexities into our processes in partnership with our software provider.

The Fund has managed the transition using the expertise of our in-house resources, sometimes necessitating manual intervention, whilst system processes were developed. We have endeavoured to ensure that all stakeholders were well informed both in terms of the changes and the progress being made by the Fund. This process continues with the Fund looking to implement further changes, whilst incorporating more streamlined ways of working and supplementary legislation.

Since the 2014 scheme change, the Government has released the 2014 Budget which relaxed the rules around trivial commutation of smaller pensions and has also introduced 'Pensions Freedom and Choice' as a mechanism for members to access their benefits in alternative ways. The Fund aims to provide further information on both these subjects in 2015/16.

Fund administration staff continue to focus heavily on cleansing data currently held on our records and received from employers in line with the closer scrutiny placed on this area by The Pensions Regulator (TPR). The Fund has rolled out bulk-data imports for a number of processes, commencing with joiners for the seven district councils in July 2014 and for all other participating employers in September 2014. We intend to intensify electronic working practices going forward and will work with employers to ensure any efficiencies in this area are explored and harnessed. Part of this process has been the development of our web portal and we hope to encourage increased sign-up to this facility with the support of our employers.

As with the previous year, the number of new employers admitted to the Fund has grown significantly. As local authorities continued with outsourcing programmes, more organisations required admitted body status and more schools elected to convert to academy status.

The current number of employers participating in the Fund stands at over 470 as at March 2015.

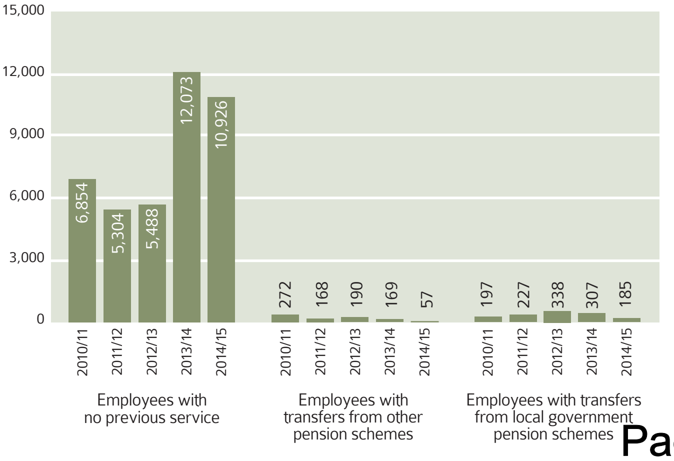
The Fund provides Pensions Committee with quarterly statistical reports demonstrating trends and service levels, particularly at notification periods for deferred and annual benefits statements. Included in these reports is the Fund's performance against its core key performance indicators (KPIs), which the Fund monitors regularly to ensure a high level of service. For the reasons detailed above, the Fund's performance for this year has been below our high standards, however we intend to improve in this area for 2015/16 with the continued implementation of LGPS 2014 and greater efficiencies.

The Fund held both an annual general meeting and a mid-year review for participating employers to discuss a number of relevant issues which also increased the emphasis on 'partnership' working. These meetings were important as part of the continual engagement process with employers and for which we receive very positive feedback. For these events in 2015/16, we would like to receive more interaction from employers on the type of subject material they would like covered. In addition, the Fund carried out a number of member roadshows at employer sites along with regular one-to-ones and events at the Fund's offices.

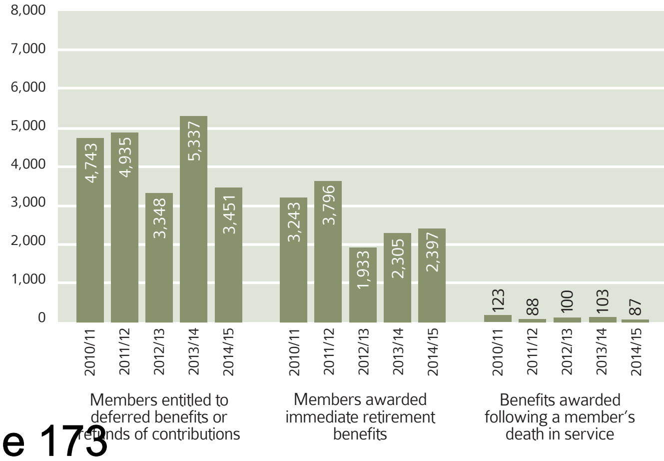
The Fund issued a revised *Pensions Administration Strategy (PAS),* effective 1 April 2015, which was consulted upon with employers during March 2015. The PAS covers primary matters as outlined in the regulations such as administration standards, performance measures and communication with employers. It also sets out the key undertakings and responsibilities of both the Fund and participating employers.

Membership Movements

Admissions to the Fund



Withdrawals from the Fund



Scheme Administration Report

The Fund will begin preparation for the 2016 actuarial valuation in 2015/16 engaging with employers as early as possible. One of the primary challenges for the Fund in this area will be the balance between prudence and affordability. In this context, the graph below details the historic trends in the funding level and common contribution rate (average employer future service rate) applied at each triennial valuation over the last 30 years.

Operational staff continue to develop themselves in order that we are best placed to provide a high level of service to our stakeholders, ensuring that our expertise remains aligned to evolving legislation. As a result, the Fund has registered as a centre for the industry-recognised Pensions Management Institute (PMI) Certificate of Pension Calculations (CPC) with a number of candidates having taken the examinations for the first time this year. At the Fund, continuous improvement is always a key consideration in our daily operational activities as we aim to work together and in partnership with our employers, service contractors and partners to put the requirements and expectations of all our customers first in the delivery of our service.

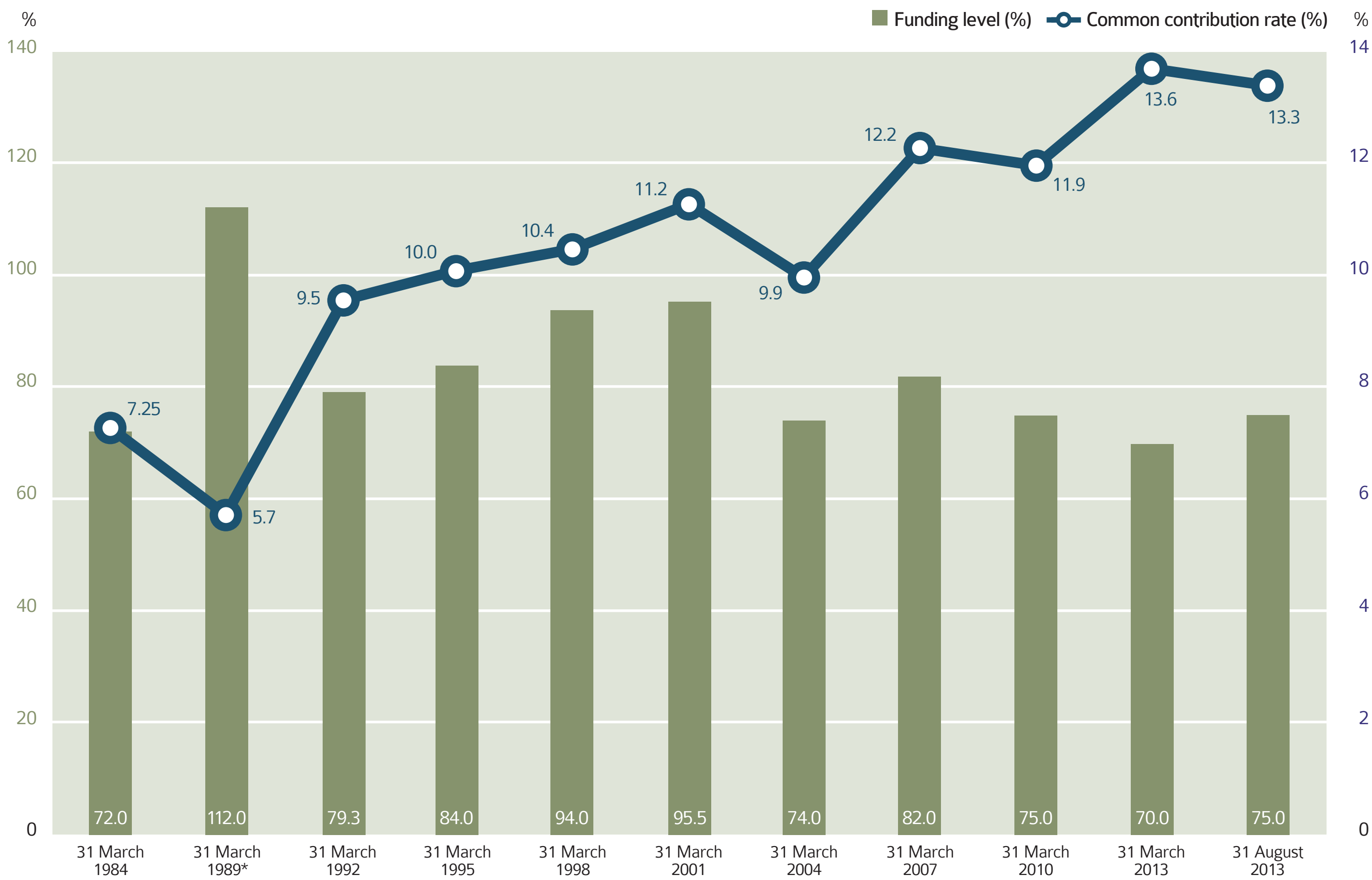
In terms of the current scheme, membership has not varied tremendously as the table below denotes; however, as a Fund, we continue to monitor trends, including opt-out patterns, and utilise events, publications and employer engagement to ensure a robust membership for the future and targeted member campaigns. Since April 2014, the Fund continues to see improvements in longevity as shown in the table on page 27; however, during the year, the Fund has dealt with 111 death-in-service cases. A total of 11,168 members have joined the scheme since 2014, of which 185 were employees transferring in from other local government funds and 57 transferred into the scheme from private schemes or other pension arrangements. There were 2,397 retirements where members had left LGPS with immediate entitlement to benefits.

The Fund also dealt with deferring members who have ceased membership of the Fund before becoming entitled to the payment of immediate benefits. In total, there were 3,451 such cases.

Simon Taylor
Head of Pensions Administration,
West Midlands Pension Fund
Date: June 2015

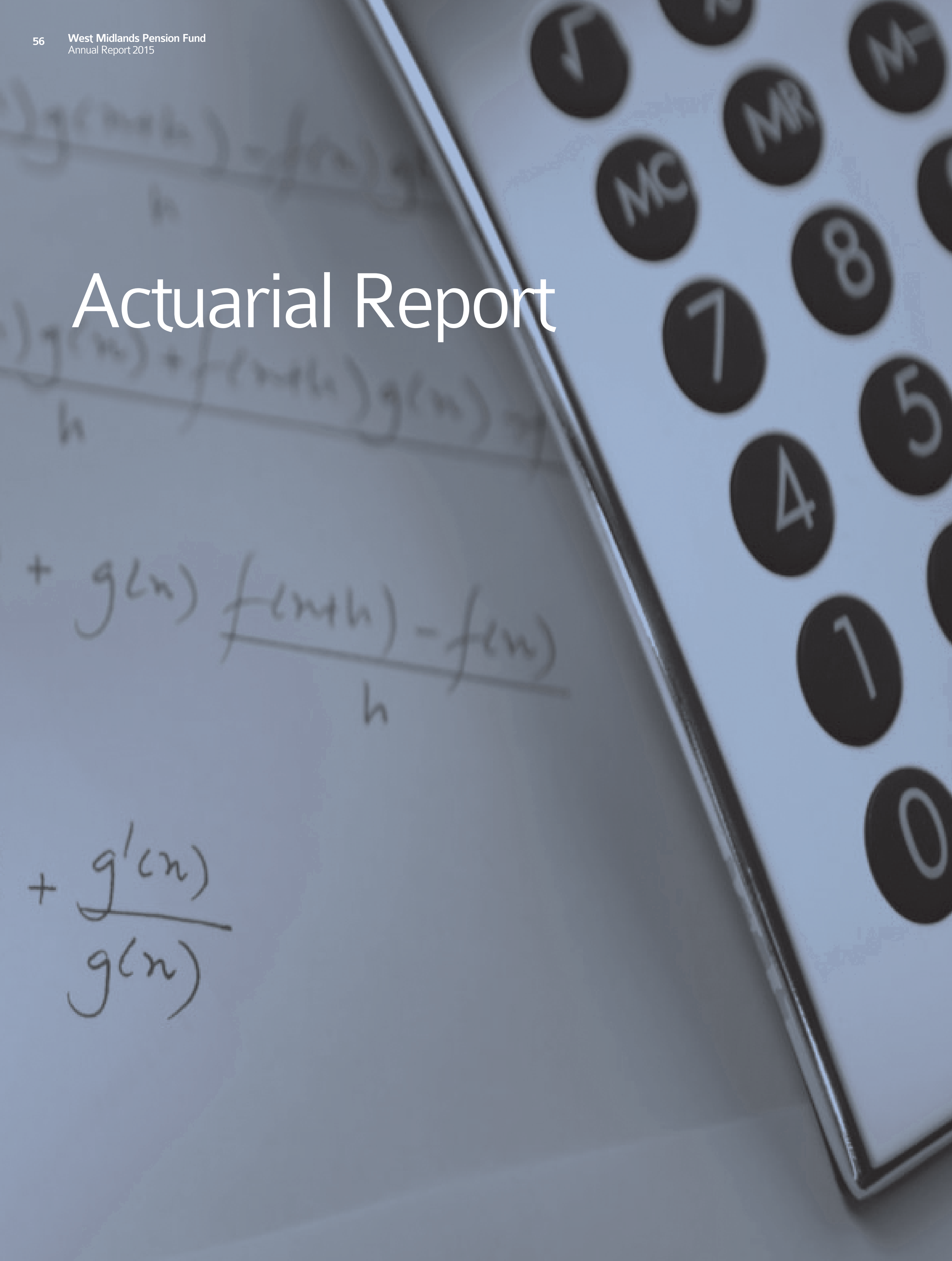
30-year Actuarial Valuation Trends

Funding Level and Common Contribution Rate Trends



*1989 funding target was set at 75%

Actuarial Report



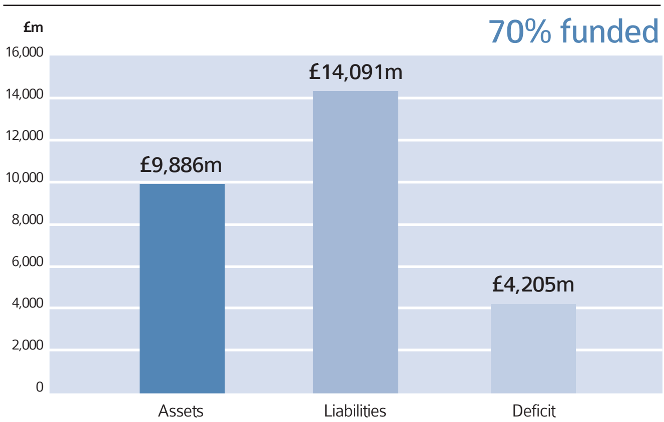
Actuarial Report

Statement of the Consulting Actuary

Accounts for the Year Ended 31 March 2015
This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

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

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



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

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

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014: http://www.wmpfonline.com/CHttpHandler.ashx?id=4655&p=0.

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

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

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

	For past services liabilities (funding target)	**For future services liabilities (common contribution rate)**
Rate of return on investments (discount rate)	4.6% pa	5.6% pa
Rate of pay increases (long-term)	4.35% pa*	4.35% pa
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.6% pa	2.6% pa

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

The assets were assessed at market value.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	**31 March 2015**
Rate of return on investments (discount rate)	4.5% pa	3.3% pa
Rate of pay increases	4.15% pa	3.75% pa
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.4% pa	2.0% pa

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

Actuarial Report

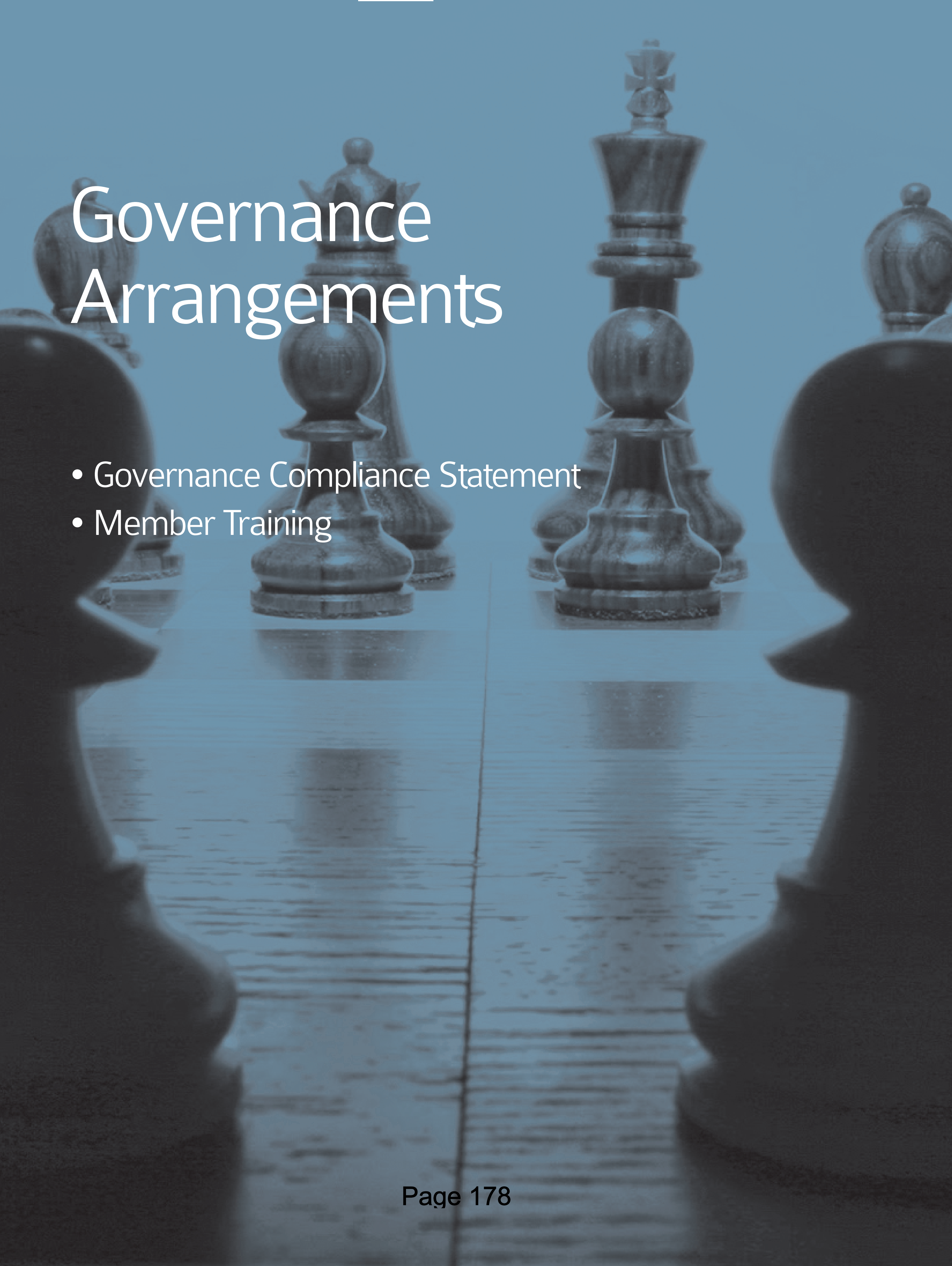
The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (3.3% pa versus 4.5% pa). In addition, the expected long-term rate of CPI inflation fell during the year, resulting in a lower assumption for pension increases at the year-end than at the beginning of the year (2.0% pa versus 2.4% pa).

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2014 was estimated as £14,680 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£2,533 million. Adding interest over the year increases the liabilities by c£654 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£264 million (including any increase in liabilities arising as a result of early retirements/augmentations and also allowing for the transfer of Probation Service staff to the Greater Manchester Pension Fund on 1 June 2014).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £17,603 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
Date: May 2015

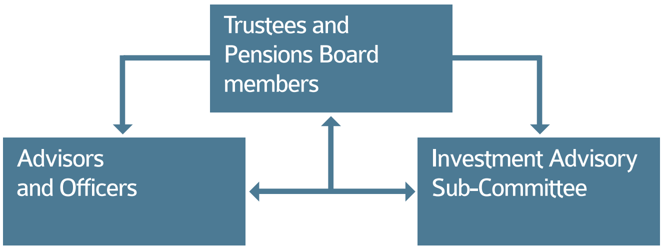


Governance Arrangements

- Governance Compliance Statement
- Member Training

Governance Compliance Statement

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 administrating 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
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
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
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.
iv) Senior pensions staff responsible for pensions benefits administration and communications.

Governance Compliance Statement

v) 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*.

vi) 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

The City of Wolverhampton Council is responsible for administering and discharging the functions as administering authority for 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 Duty of Trustees

The duty of the trustees is to exercise their powers in the best interests of the present and future beneficiaries of the trust. Holding the scales impartially between different classes of beneficiaries is paramount. They must, of course, obey the law but, subject to that, they must put the interests of their beneficiaries first.

When the purpose of the trust is to provide financial benefits for the beneficiaries, the best interests of the beneficiaries are normally their best financial interests. In the case of a power of investment, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question and the prospect of the yield of income and capital appreciation, both have to be considered in judging the return from the investment.

Standard Required of a Trustee

The standard required of a trustee in exercising their powers of investment is that they must take such care as an ordinary prudent man would take if they were minded to make an investment for the benefit of other people for whom they felt morally bound to provide.

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

Governance Compliance Statement

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

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

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 Pensions 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 representatives. 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

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.

Governance Compliance Statement

Origins of the Fund and Responsibilities

Following the 1974 reorganisation, all Council employees in the area (excluding teachers, police and fire officers) were members of the West Midlands Superannuation Fund with the former county council as administering authority. The 1986 reorganisation led to Wolverhampton Council becoming the administering authority for the Fund and local government employee pensions other than teachers, police and fire officers in the West Midlands. Responsibility for discharging the administering authority role is delegated to the Pensions Committee which has representatives from the district councils as the largest employers and four trade union representatives nominated from 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.

Compliance and Best Practice

The Fund is required to publish a compliance statement under Regulation 73A of the Local Government Pension Scheme Regulations and review that statement on an ongoing basis under Regulation 31 of the 2008 Regulations. There is also a requirement to declare their compliance in meeting the guidance given by Secretary of State.

The Fund aims to comply fully with the guidance given by the Secretary of State and relevant guides produced by CIPFA.

The West Midlands Integrated Transport Authority

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.

Governance Compliance Statement

The membership of the Pensions Committee and the Investment Advisory Sub-Committee (IASC) throughout 2014/15 is detailed below:

Membership	IASC	Voting rights	Number of Pensions Committee meetings attended	Number of IASC meetings attended	Hours training received
Cllr Bert Turner	*	Yes	4 of 4	4 of 4	32.25
Cllr Lorna McGregor	*	Yes	2 of 4	2 of 4	13.25
Cllr Peter Bilson	*	Yes	3 of 4	2 of 4	25.00
Cllr Ian Brookfield		Yes	3 of 4		43.75
Cllr Valerie Evans		Yes	3 of 4		1.75
Cllr Jasbir Jaspal		Yes	3 of 4		36.50
Cllr Phil Page		Yes	3 of 4		28.75
Cllr Sandra Samuels		Yes	2 of 4		3.50
Cllr Tersaim Singh	*	Yes	4 of 4	4 of 4	44.75
Cllr Mike Heap		Yes	1 of 4		3.75
Cllr Zahid Shah		Yes	2 of 4		1.75
Cllr Paul Singh		Yes	4 of 4		26.25
Cllr Mohammed Afzal	*	Yes	3 of 4	3 of 4	17.00
Cllr Alan Reberio and Cllr Robert Hulland (substitute member)	*	Yes	3 of 4	3 of 4	213.00
Cllr Damian Gannon	*	Yes	2 of 4	2 of 4	1.75
Cllr Rachel Harris	*	Yes	3 of 4	2 of 4	22.75
Cllr Mohammed Arif	*	Yes	4 of 4	4 of 4	32.75
Cllr S Eling and Cllr Sandra Hevican (substitute member)	*	Yes	3 of 4	3 of 4	31.50
Mr Malcolm Cantello	*	No	3 of 4	3 of 4	189.50
Mr Martin Clift	*	No	3 of 4	3 of 4	11.75
Mr Victor Silvester	*	No	3 of 4	3 of 4	40.25
Mr Ian Smith	*	No	2 of 4	2 of 4	43.50
					865.0

Where members have a conflict of interest on an item to be considered as part of the agenda, the individual member will declare their interest and will abstain from voting.

Member Training Report

The Public Service Pensions Act 2013 provides for the regulation of the LGPS by The Pensions Regulator and, accordingly, the increased emphasis on trustee training, knowledge and understanding. The Fund's trustee training policy is approved each year by Pensions Committee, and as part of the policy training activity undertaken is recorded and reported to Committee. By implementing and participating in the trustee training policy, Committee members will be better placed to make well-informed decisions and, consequently, will be able to comply with the increased requirements of the regulator and the overarching governance requirements of the new scheme.

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

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

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

In the period 2014/15, training included the following:

- Induction training for all new and returning Committee members
- Employer mid-year review covering actuarial valuation, next steps, investment strategy and performance, responsible investment, governance reform and the importance of data security and quality
- Understanding finance and pensions accounting
- Investment-related training including:
  - asset allocation;
  - equity management;
  - investment risk;
  - behavioural finance;
  - Indirect property funds;
  - active management through the secondary market;
  - opportunities for infrastructure investment;
  - investment efficiency and 2013 benchmarking;
  - responsible investment.
- Employer AGM covering report and accounts (including the service plan), responsible investment, update on governance reforms
- Implementing governance reform
- External conferences, (LAPFF, etc)

Most new members attended the induction course and a total of 865 training hours were undertaken in 2014/15 with 14 members exceeding the three-days' (22 hours) requirement.

As highlighted above, the Fund is a member of LAPFF, which is an investor membership body consisting of 64 UK public funds that engages with investee companies on issues such as climate change, child labour and breaches of the Combined Code. The Chair of the Pensions Committee regularly attends LAPFF meetings and its activities are reported on a quarterly basis to other members of the Pensions Committee. LAPFF also advise on other areas including best practice and members receive presentations from managers specialising in ESG investment.

LAPFF holds an annual two-day conference which Committee attend. Issues addressed at the 2014 event were themed around *Productive Investment: Public Funds and Public Purpose* and included the following:

- What kind of infrastructure investment do we need?
- Mergers and acquisitions
- Rt Hon the Lord Heseltine CH, PC, '*No Stone Unturned*', urban regeneration
- International activism
- LGPS issues
- Building cities for the future
- Executive pay: alignment or intrinsic value
- Board diversity and director competencies
- How better business practice can drive both market and social returns

Details of the training reports and presentations provided to the Pensions Committee and Investment Advisory Sub-Committee during 2014/15 are as follows:

Local Government Pension Scheme reform	25 June 2014
Performance and risk measurement	24 September 2014
Proposed changes in listed equities	10 December 2014
Investment and management costs and long-term performance	18 March 2015

Member Training Report

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

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

Statement of Accounts

Statement of Accounts

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

The statement of accounts will be audited by the Fund's external auditors, PricewaterhouseCoopers LLP, and they will provide an opinion on those accounts in the final version of this annual report, to be published by September 2015.

Statement of Accounts

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

Statement of Accounts

Statement of Responsibilities

The Council's Responsibilities
The council is required to:

i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director of Finance.

ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

iii) Approve the Statement of Accounts.

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

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

i) Selected suitable accounting policies and then applied them consistently.

ii) Made judgements and estimates that were reasonable and prudent.

iii) Complied with the Code.

The Director of Finance has also:

i) Kept proper accounting records which were up to date.

ii) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the Director of Finance
I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the council as at 31 March 2015 and its income and expenditure for the year ended the same date.

Mark Taylor
Director of Finance
2 June 2015

Statement of Accounts

Fund Account

2013/14 £m		Notes	2014/15 £m
	Contributions and benefits		
(419.3)	Contributions receivable	**8**	(500.2)
(11.3)	Transfers in	**9**	(9.5)
(16.2)	Other income	**10**	(15.7)
(446.8)	**Total contributions and other income**		**(525.4)**
472.4	Benefits payable	**11**	498.3
23.0	Payments to and on account of leavers	**12**	261.5
0.3	Other payments		0.4
495.7	**Total benefits and other expenditure**		**760.2**
92.5	**Management expenses**	**13**	**86.3**
	Returns on investments		
(134.8)	Investment income	**14**	(160.5)
(161.7)	Changes in value of investments		(947.6)
(103.0)	Profits and losses on disposal of investments		(532.6)
(399.5)	**Net return on investments**		**(1,640.7)**
(258.1)	**Net (increase) in the Fund during the year**		**(1,319.6)**
9,886.3	**Net assets of the Fund at the beginning of the year**		**10,144.4**
10,144.4	**Net assets of the Fund at the end of the year**		**11,464.0**

Statement of Accounts

Net Assets Statement

31 March 2014 £m		Notes	31 March 2015 £m
	Investment assets (at market value)	**15**	
171.3	Fixed interest securities		185.9
971.3	UK equities		1,019.6
3,155.9	Overseas equities		3,861.3
4,908.2	Pooled investment vehicles		5,102.5
629.8	Property		656.4
42.2	Foreign currency holdings		91.9
211.6	Cash deposits		458.3
-	Other investment assets		1.6
4.9	Outstanding dividend entitlement and recoverable withholding tax		44.3
10,095.2	**Investment assets**		**11,421.8**
	Investment liabilities (at market value)	**15**	
(3.3)	Other investment liabilities		-
(3.3)	**Investment liabilities**		**-**
10,091.9	**Net investment assets**		**11,421.8**
-	**Other long-term assets**	**18**	**11.6**
71.1	**Current assets**	**19**	**54.8**
(18.6)	**Current liabilities**	**20**	**(24.2)**
10,144.4	**Net assets of the Fund at the end of the year**		**11,464.0**

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

The notes form part of these financial statements.

Statement of Accounts

Notes to the Accounts

1) General

The description in this note is a high-level summary of the Fund's activities, and more detail is available in the Fund's *Annual Report 2015*, which can be found on its website at: http://www.wmpfonline.com/article/4764/Annual-Reports

West Midlands Pension Fund is part of the Local Government Pension Scheme, and is administered by the City of Wolverhampton Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund. Membership of the Fund is available to all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region, together with employees of admitted bodies. At 31 March 2015, the Fund had over 450 participating employers, and 277,558 members, as set out in the following table. A full list of participating employers can be found in the Fund's annual report.

31 March 2014 No.		31 March 2015 No.
99,771	Active members	104,250
90,008	Pensioner members	82,110
80,551	Deferred members	91,198
270,330	**Total**	**277,558**

The Council's Pensions Committee has delegated responsibility for administering the Fund. It meets at approximately quarterly intervals, and has members from each of the seven metropolitan district councils in the West Midlands. An Investment Advisory Sub-Committee and a Joint Consultative Forum were also in operation during 2014/15. The Joint Consultative Forum was dissolved on 4 March 2015. A local Pensions Board has been established in 2015/16, in accordance with revised LGPS regulations.

The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in according with the following secondary legislation:

i) The Local Government Pension Scheme Regulations 2013 (as amended)

ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)

iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set-based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Employer contribution rates during 2014/15 ranged from 5.0% to 45.3% of pensionable pay.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE), with an accrual rate of 1/49th, and pensions uprated annually in line with the consumer prices index. Pension entitlements accrued prior to this date continue to be based on final salary.

2) Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2014/15 financial year and its position as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 6 of these accounts.

3) Statement of Accounting Policies

a) Fund Account

In the Fund Account, income and expenditure are accounted for in the year in which they arise by the creation of payables and receivables at the year end where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year end (see Note P9).

b) Contribution income

Contributions receivable have been included in the accounts on the accruals basis at the rates recommended by the Fund's actuary for basic contributions. Additional contributions as notified by employers for the period have also been included. Past-service deficit contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset, with amounts due after the following year classed as long-term financial assets.

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

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who had either joined or left the scheme as at 31 March 2015, calculated in accordance with the Local Government Pension Scheme Regulations (see notes P9 and P12). Transfers in respect of individuals are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Statement of Accounts

Notes to the Accounts

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis, and are reported within transfers in.

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

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

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

Property-related income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

e) Taxation
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

f) Benefits payable
Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2015. Any amounts due but un paid are disclosed in the net assets statement as current liabilities.

g) Foreign currency transactions
Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2015.

h) Valuation of investments

1) Quoted securities
Securities have been valued at the bid-market price ruling on 31 March 2015 where a quotation was available on a recognised stock exchange or unlisted securities market.

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

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

4) Freehold and leasehold properties
These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, chartered surveyors as at 31 March 2015. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties were valued by Savills plc, agricultural valuers, at the same date.

5) Foreign currencies
Investments held in foreign currencies have been valued as set out in paragraph G above and translated at exchange rates ruling at 31 March 2015.

6) Movement in the net market value of investments
Any gains or losses arising on translation of investments into sterling are accounted for as a change in the market value of investments.

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

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

Statement of Accounts

Notes to the Accounts

k) Management expenses
The Fund discloses its management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

All administrative expenses are accounted for on an accruals basis. The costs of Fund officers are recharged to the Fund, along with all other costs incurred directly on Fund activities, and an apportionment for corporate support services provided by the Council.

All investment management expenses are accounted for on an accruals basis. External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody and, as such, will fluctuate as the valuations change. In addition, performance-related fees are negotiated with a number of managers and the amounts of such fees are provided in note 13.

Where a management fee notification has not been received by the time of preparing these accounts, an estimate based upon the market value of their mandate is used for inclusion in the Fund account.

The cost of external investment advice is included in investment management expenses, as is the cost of the Fund's in-house investment management team.

l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 6).

m) Additional voluntary contributions
The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in acccordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 21).

4) Critical Judgements in Applying Accounting Policies

Unquoted Private Equity Investments
The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor valuation report has not been received from the fund manager the security is valued at cost. The value of unquoted private equity at 31 March 2015 was £1,351.2 million (£1,240.5 million at 31 March 2014).

Fund Liability
The Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 6. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

Actuarial Present Value of Promised Retirement Benefits

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

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

Change in assumptions – year ended 31 March 2015	Approximate % increase in liabilities	Approximate monetary value £m
0.5% pa decrease in discount rate	10%	1,737.0
One-year increase in member life expectancy	2%	381.0
0.5% pa increase in salary increase rate	2%	377.0
0.5% pa increase in CPI inflation	9%	1,648.0

Private equity

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

Effect if actual results differ from assumptions
The total private equity investments in the financial statements are £1,351.2 million. There is a risk that this investment may be under- or overstated in the accounts.

Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£67.6 million.

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Hedge Funds

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

Effect if actual results differ from assumptions
The total hedge funds value in the financial statements is £226.4 million. There is a risk that these investments may be under-or overstated in the accounts. Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£11.3 million.

6) Actuarial Valuation

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

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £9,886.0 million represented 70% of the funding target of £14,091.0 million at the valuation date. The valuation also showed that a common rate of contribution of 13.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

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

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	4.15% per annum*	3.75% per annum*
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.4% per annum	2.0% per annum

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

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £14,680.0 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to decrease the liabilities by £2,553.0 million. Adding interest over the year increases the liabilities by £654.0 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by £264.0 million (including any increase in liabilities arising as a result of early retirements/augmentations, and also allowing for the transfer of Probation Service staff to Greater Manchester Pension Fund on 1 June 2014).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £17,603.0 million.

7) Taxation

i) Value added tax (VAT)

The Fund (as part of the City of Wolverhampton Council) pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

ii) Taxation of overseas investment income

The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets.

In some markets, a lower-than-standard tax rate is available, either as a result of a double tax treaty in place between the UK and the investment country (eg, Poland, Canada, Italy, Sweden) or based on favourable domestic legislation (eg, Australia, Czech Republic, Singapore). Where this is the case, relief may be granted at source based on documentation already on file (eg, USA, Belgium, Australia, Finland, France and Norway), or ex-post via reclaim forms submitted to the local tax authorities (eg, Austria, Denmark, Germany, Netherlands, Switzerland and Spain).

There are also markets where relief is not possible - either no double taxation agreements exists (eg, Brazil, Colombia, Lebanon), or a 'subject to tax' clause prevents UK pension funds from benefiting from treaty rates (eg, Israel, Malaysia, Portugal). In such cases, the full amount of tax is withheld and is final.

8) Contributions Receivable

2013/14 £m		2014/15 £m
	From employers	
301.4	Basic contributions	361.0
0.3	Augmented membership	-
8.8	Additional cost of early retirement	28.6
310.5		**389.6**
	From members	
107.8	Basic contributions	109.9
1.0	Additional contributions	0.7
108.8		**110.6**
419.3	**Total contributions**	**500.2**

The additional contributions above represent the purchase of added membership or additional benefits under the scheme.

Contributions receivable by type of member

2013/14 £m		2014/15 £m
32.9	Administering authority	35.9
367.8	Scheme employers	440.9
18.6	Admitted employers	23.4
419.3	**Total**	**500.2**

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9) Transfers In

2013/14 £m		2014/15 £m
11.3	Individual transfers in from other schemes	9.5

10) Other Income

2013/14 £m		2014/15 £m
	Benefits recharged to employers	
9.0	Compensatory added years	8.5
7.2	Pensions increases	7.2
16.2	**Total**	**15.7**

11) Benefits Payable

Benefits payable by type:

2013/14 £m		2014/15 £m
	Pensions	
346.0	Retirement pensions	360.7
26.5	Widows' pensions	27.4
0.9	Children's' pensions	0.9
3.5	Widowers' pensions	3.9
0.1	Ex-spouse	0.1
0.1	Equivalent pension benefits	0.1
-	Civil partnership	-
-	Cohabiting partners	0.1
377.1	**Total pensions**	**393.2**
	Lump-sum benefits	
83.5	Retiring allowances	92.2
11.8	Death grants	12.9
95.3	**Total lump-sum benefits**	**105.1**
472.4	**Total benefits payable**	**498.3**

Benefits payable by type of member:

2013/14 £m		2014/15 £m
40.8	Administering authority	49.7
400.8	Scheme employers	415.8
30.8	Admitted employers	32.8
472.4	**Total**	**498.3**

12) Payments To and On Account of Leavers

2013/14 £m		2014/15 £m
20.2	Individual transfers	10.0
-	Group transfers	247.8
-	Refunds of contributions	0.6
-	State scheme premiums	0.1
2.8	Bulk pension transfer increases	3.0
23.0	**Total**	**261.5**

The amount for group transfers is primarily made up of £246.0 million transferred to Greater Manchester Pension Fund in respect of Staffordshire and West Midlands Probation Trust, for which responsibility transferred on 1 June 2014.

13) Management Expenses

2013/14 (restated) £m		2014/15 £m
3.2	Administrative costs	3.0
87.3	Investment management expenses	81.2
2.0	Oversight and governance costs	2.1
92.5	**Total management costs**	**86.3**

Performance-related fees are negotiated with a number of managers. Included in external management of investments are performance-related fees of £24.1 million in 2014/15 and £28.9 million in 2013/14.

The Fund has applied CIPFA's guidance *Accounting for Local Government Pension Scheme Management Costs*, which was introduced in June 2014. This requires management expenses to be analysed by the three headings shown above (previously there were two: administrative expenses and investment management expenses). The 2013/14 figures have been restated to comply with the new guidance.

The guidance also requires a change in the reporting of external investment management fees that are deducted from asset values (rather than invoiced and paid directly). These are now shown gross: the effect of this has been to increase investment management expenses from £10.7 million to £81.2 million (2013/14: £11.0 million to £87.3 million). Wherever possible, these figures are based on actual costs disclosed by the manager; where actual costs were not available, best estimates have been made using other available information. It is important to note that this is a change in reporting only and does not represent an actual increase in costs, nor a decrease in the Fund's resources available to pay pension benefits.

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14) Investment Income

2013/14 £m		2014/15 £m
	Dividends and interest	
	Fixed-interest securities	
8.8	UK private sector – quoted	8.7
	Equities	
31.9	UK	36.3
43.0	Overseas	80.8
	Pooled investment vehicles	
19.8	UK	3.5
1.9	Overseas equities	0.9
1.3	Interest on cash deposits	1.5
0.6	Stocklending	1.3
(0.1)	UK tax, irrecoverable	-
(1.4)	Overseas taxation	(2.5)
105.8	**Total dividends and interest**	**130.5**
37.4	Property management income	39.0
(8.4)	Property management expenses	(9.0)
29.0	**Total property management**	**30.0**
134.8	**Total investment income**	**160.5**

Stocklending

The stocklending programme provides for direct equity investments to be lent. At the year end the value of quoted equities on loan was £314.0 million (2014: £171.4 million) in exchange for which the custodian held collateral worth £333.9 million (2014: £184.6 million). Collateral consists of acceptable securities and government debt.

15) Net Investment Assets

31 March 2014 £m		31 March 2015 £m
	Fixed-interest securities	
171.3	UK companies - segregated (external)	185.9
171.3		**185.9**
	UK equities	
971.3	Quoted	1,019.6
-	Quoted - segregated (external)	-
971.3		**1,019.6**
	Overseas equities	
1,763.9	Quoted	2,660.0
1,392.0	Quoted - segregated (external)	1,201.3
3,155.9		**3,861.3**
	Pooled investment vehicles	
	Managed funds	
192.5	UK quoted, fixed interest	150.5
600.8	Other fixed interest	644.6
948.6	UK quoted, index-linked	1,057.6
259.7	Overseas equities	-
269.6	UK unquoted equities	281.2
1,453.9	Overseas unquoted equities	1,451.0
553.0	UK absolute returns	626.3
89.6	Overseas absolute returns	82.0
47.0	UK property	54.3
211.3	Foreign property	185.3
	Unit trusts	
66.3	UK quoted equities	83.1
209.4	Overseas equities	481.4
6.5	Overseas property	5.2
4,908.2		**5,102.5**
	Property	
586.8	UK freehold	604.6
43.0	UK leasehold*	51.8
629.8		**656.4**
	Foreign currency holdings	
21.3	United States dollars	4.4
11.3	Euro	8.1
1.0	Canadian dollars	0.7
0.4	Danish kroner	0.4
0.6	Hong Kong dollars	23.0
0.5	Swedish kroner	6.4
1.4	Swiss francs	0.5
1.4	Japanese yen	-
0.5	Norwegian kroner	1.9
0.6	Singapore dollars	-
1.1	Australian dollars	0.2
0.1	New Zealand dollars	0.5
0.5	Hungarian forints	0.2
0.7	Polish zloty	2.0
-	Israeli shekels	0.9
0.3	Turkish lira	6.6
0.5	Czech koruna	0.6
-	Korean won	35.5
42.2		**91.9**
	Cash deposits	
211.6	UK	458.3
	Other investments	
(3.3)	Broker balances	1.6
4.9	Outstanding dividend entitlement and recoverable withholding tax	44.3
10,091.9	**Total net investment assets**	**11,421.8**

**all leasehold properties are held on long leases*

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

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

31 March 2014 Market value £m	31 March 2014 % of total market value		31 March 2015 Market value £m	31 March 2015 % of total market value
		Security		
639.1	6.3	Legal & General - All Stocks Index-Linked Gilts Fund	709.9	6.2

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

31 March 2014 Market value £m	31 March 2014 % of total market value		31 March 2015 Market value £m	31 March 2015 % of total market value
3,615.5	35.7	In-house	4,878.5	42.9
33.2	0.3	Managers: UK quoted	40.1	0.4
146.5	1.5	Managers: US quoted	-	-
236.8	2.3	Managers: European quoted	-	-
36.2	0.4	Managers: Japanese quoted	-	-
69.5	0.7	Managers: Pacific Basin	-	-
845.9	8.4	Managers: Emerging markets	826.0	7.3
526.1	5.2	Managers: Global equities	856.8	7.5
1,913.2	19.0	Managers: Fixed interest	2,047.7	17.9
298.0	3.0	Managers: Indirect property	287.8	2.5
189.6	1.9	Managers: Commodities	-	-
293.4	2.9	Managers: Infrastructure funds	381.0	3.4
642.6	6.4	Managers: Absolute return	708.4	6.2
1,240.5	12.3	Managers: Private equity	1,351.2	11.9
10,087.0	**100.0**		**11,377.5**	**100.0**
4.9		Outstanding dividend entitlement and recoverable withholding tax	44.3	
10,091.9		**Total investment assets**	**11,421.8**	

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16) Investment Market Value Movements Analysis

	Value as at 31 March 2014 £m	Purchases at cost £m	Sales at book value £m	Change in market value £m	Value at 31 March 2015 £m
Fixed interest securities	171.3	-	(5.4)	20.0	185.9
UK equities	971.3	52.7	(17.2)	12.8	1,019.6
Overseas equities	3,155.9	1,744.5	(1,256.7)	217.6	3,861.3
Pooled investment vehicles	4,908.2	762.4	(1,206.3)	638.2	5,102.5
Property	629.8	51.3	(83.7)	59.0	656.4
	9,836.5	**2,610.9**	**(2,569.3)**	**947.6**	**10,825.7**
Broker balances	(3.3)				1.6
Outstanding dividend entitlement and recoverable withholding tax	4.9				44.3
Foreign currency	42.2				91.9
Cash deposits	211.6				458.3
Total investments	**10,091.9**				**11,421.8**

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profit and losses on the sale of investments shown in the Fund Account includes an additional £652.6 million which represents profit realised on sale of the Fund's assets.

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.7 million (2013/14: £1.2 million).
In addition to the transaction costs disclosed below, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

31 March 2014 £m		31 March 2015 £m
0.1	Equities - UK quoted	-
1.1	Equities - overseas quoted	0.7
1.2		**0.7**

The volatility of investment markets is an ever-present and longstanding feature of pension fund management and valuations may vary, either up or down, throughout each day when exchanges are open.

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

	Value as at 31 March 2013 £m	Purchases at cost £m	Sales at book value £m	Change in market value £m	Value at 31 March 2014 £m
Fixed interest securities	173.9	-	(5.7)	3.1	171.3
UK equities	943.5	29.0	(25.9)	24.7	971.3
Overseas equities	2,072.5	1,099.5	(85.9)	69.8	3,155.9
Pooled investment vehicles	5,729.4	1,029.2	(1,870.2)	19.8	4,908.2
Property	567.6	21.5	(3.6)	44.3	629.8
	9,486.9	**2,179.2**	**(1,991.3)**	**161.7**	**9,836.5**
Broker balances	(0.1)				(3.3)
Outstanding dividend entitlement and recoverable withholding tax	15.4				4.9
Foreign currency	82.9				42.2
Cash deposits	241.1				211.6
Total investments	**9,826.2**				**10,091.9**

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

17) Investment Capital Commitments

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

31 March 2014 £m		31 March 2015 £m
920.8	Non-equities	768.4
146.5	Property	172.4
1,067.3		**940.8**

These amounts relate to outstanding commitments due on funds held in the private equity, fixed interest, absolute return and alternative investment portfolios.

18) Other Long-Term Assets

This balance is in respect of amounts due from employers to meet early retirement costs, for which the Fund has agreed to those employers deferring payment over a number of years. These are amounts due after the following financial year (with the amounts due next year reported in 'Current Assets'), and can be analysed as follows.

31 March 2014 £m		31 March 2015 £m
-	Administering authority	4.0
-	Other local authorities	7.6
-	**Total**	**11.6**

19) Current Assets

31 March 2014 £m		31 March 2015 £m
	Receivables and prepayments	
	Contributions receivable	
22.6	• Employers	14.4
9.2	• Members	7.0
39.4	Other receivables	33.0
71.2	**Total receivables and prepayments**	**54.4**
(0.1)	Cash	0.4
71.1	**Total current assets**	**54.8**

Note: following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it was calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This is to be paid in ten equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The balance due included in 'Other Receivables' at 31 March 2015 is £16.1 million (31 March 2014: £19.4 million).

31 March 2014 £m		31 March 2015 £m
	Analysis of receivables	
	Contributions receivable	
1.3	Administering authority	4.9
20.2	Other local authorities	16.6
49.6	Other entities and individuals	32.9
71.1	**Total**	**54.4**

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20) Current Liabilities

31 March 2014 £m		31 March 2015 £m
	Payables and receipts in advance	
(4.3)	Pensions and lump-sum benefits	(2.4)
(14.3)	Other payables	(21.8)
(18.6)	**Total**	**(24.2)**

31 March 2014 £m		31 March 2015 £m
	Analysis of payables	
(3.4)	Central government bodies	(3.7)
(6.5)	Administering authority	(10.5)
(0.1)	Other local authorities	(0.1)
(8.6)	Other entities and individuals	(9.9)
(18.6)	**Total**	**(24.2)**

21) Additional Voluntary Contributions

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

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

31 March 2014			31 March 2015	
Equitable Life £m	Prudential £m		Equitable Life £m	Prudential £m
2.7	**30.2**	**Opening value of the Fund**	**2.4**	**35.8**
-	7.3	Income	-	7.2
(0.4)	(7.8)	Expenditure	(0.4)	(8.4)
0.1	6.1	Change in market value	0.1	4.1
2.4	**35.8**	**Closing value of the Fund**	**2.1**	**38.7**

22) Post-Year-End Transactions

There were no post-year-end transactions that require disclosure in the accounts.

23) Financial Instruments

Net Gains and Losses on Financial Instruments

31 March 2014 £m		31 March 2015 £m
	Financial assets	
(138.5)	Fair value through profit and loss	(947.6)
(138.5)	**Total**	**(947.6)**

Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2014			31 March 2015	
Carrying value £m	Fair value £m		Carrying value £m	Fair value £m
		Financial assets		
9,836.5	9,836.5	Fair value through profit and loss	10,825.6	10,825.6
255.4	255.4	Loans and receivables	596.2	595.2
10,091.9	**10,091.9**	**Total**	**11,421.8**	**11,421.8**

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Valuation of Financial Instruments Carried at Fair Value

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

Level 1

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

Level 2

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

Level 3

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

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

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

Values at 31 March 2015	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	6,796.4	1,588.7	2,440.5	10,825.6
Loans and receivables	596.2	-	-	596.2
Total financial assets	**7,392.6**	**1,588.7**	**2,440.5**	**11,421.8**

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

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24) The Nature and Extent of Risks Arising From Financial Instruments

Risk Management

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

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

Credit risk - **the possibility that the other parties might fail to pay amounts due to the Fund**

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

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

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

Investment Risk

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

Risks in return-seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of return-seeking assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

Counterparty Risk

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

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

Credit Risk

The Fund's deposits with financial institutions as at 31 March 2015 totalled £449.3 million in respect of temporary loans and treasury management instruments (31 March 2014: £211.6 million). The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the *Compliance Manual*. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2015 is shown overleaf:

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Credit rating sensitivity analysis

Summary	Rating	Balances as at 31 March 2014 £m	Balances as at 31 March 2015 £m
Money market funds			
AIM STIC Global Sterling Portfolio		28.3	45.0
HSBC Sterling Liquidity Fund		43.3	263.2
Short-term deposits			
Nationwide Building Society	A	25.0	25.0
Principality Building Society	BBB+	8.0	10.0
Nottingham Building Society	Baa2	-	10.0
Leeds Building Society	A-	-	10.0
Newcastle Building Society	BB+	-	10.0
Yorkshire Building Society	A-	-	10.0
Skipton Building Society	BBB	8.5	10.0
West Bromwich Building Society	B2	-	5.0
Banco Santander	A-	23.5	-
Lloyds Bank Plc	A	13.0	-
Coventry Building Society	A	12.0	-
Bank deposit accounts			
NatWest Liquidity Select		50.0	49.8
GBP Current Accounts		-	1.3
Total		**211.6**	**449.3**

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

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

Securities Lending
As at 31 March 2015, £314.0 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender (31 March 2014: £171.4 million). The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £333.9 million, giving a margin of 6.3% (2013/14, £184.6 million, margin of 7.7%).

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Income from stock lending amounted to £1.3 million during the year (2013/14: £0.6 million) and is detailed in note 14 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers; therefore, the value of that collateral is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

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

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

Other Price Risk: Sensitivity Analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset type	Value as at 31 March 2015 £m	% Change	Value on increase £m	Value on decrease £m
UK equities	1,059.7	17.0%	1,239.8	879.6
Global equities (ex-UK)	4,342.6	20.1%	5,215.5	3,469.7
Property	944.1	14.7%	1,082.9	805.3
Corporate bonds (short-term)	173.0	7.1%	185.3	160.7
Corporate bonds (medium-term)*	238.8	9.5%	261.5	216.1
Corporate bonds (long-term)	121.8	18.0%	143.7	99.9
UK fixed gilts (short-term)	47.4	3.0%	48.8	46.0
UK fixed gilts (medium-term)**	42.0	6.7%	44.8	39.2
UK fixed gilts (long-term)	61.2	12.2%	68.7	53.7
UK index-linked gilts (short-term)	73.4	2.2%	75.0	71.8
UK index-linked gilts (medium-term)	185.9	4.8%	194.8	177.0
UK index-linked gilts (long-term)	450.6	8.6%	489.4	411.8
Cash	542.9	0.6%	546.2	539.6
Private equity	1,351.2	28.6%	1,737.6	964.8
Infrastructure	354.2	15.9%	410.5	297.9
Forestry	26.7	16.2%	31.0	22.4
High-yield debt***	644.6	13.4%	731.0	558.2
Absolute return/diversified growth	708.4	12.0%	793.4	623.4
Total assets	**11,368.5**		**13,299.9**	**9,437.1**

*includes exposure to loans (£90.0 million) and the Newton Dynamic Bond Fund (£50.0 million)

**includes exposure to overseas bonds (£77.6 million)

***includes exposure to emerging market debt, mezzanine debt and convertibles

The total Fund volatility, taking into account the expected interactions between the different asset classes shown (based on the underlying volatilities and correlations of the assets and in line with mean variance portfolio theory) is 12.5%. On this basis, the total value on increase is £12,789.6 million, and the total value on decrease is £9,947.4 million. Under this approach, in which the beneficial impact of diversification is recognised, the monetary impact on the total Fund assets is lower than the sum of the monetary impact for each asset class.

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Currency Risk

Currency risk represents the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The one-year expected standard deviation for an individual currency as at 31 March 2015 is 13%. This assumes no diversification with other assets and, in particular, that interest rates remain constant. The following tables summarise the Fund's currency exposure as at 31 March 2015:

Currency risk by asset class

Asset type	Value as at 31 March 2015 £	% Change	Value on Increase £	Value on decrease £
Overseas equities	4,342.6	13.0%	4,907.1	3,778.1
Private equity	1,162.0	13.0%	1,313.1	1,010.9
Fixed interest	283.6	13.0%	320.5	246.7
Alternatives	363.0	13.0%	410.2	315.8
Property	173.8	13.0%	196.4	151.2
Liquid assets	91.9	13.0%	103.8	80.0
Total	**6,416.9**	**13.0%**	**7,251.1**	**5,582.7**

Interest Rate Risk

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

The Fund's direct exposure to interest rate movements as at 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest Rate Risk - Sensitivity Analysis

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

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

	Carrying amount as at 31 March 2015	Change in year in the net assets available to pay benefits	
Asset Type	£m	+100BPS £m	-100BPS £m
Index-linked gilts	709.9	(147.9)	147.9
Gilts	150.6	(15.3)	15.3
Corporate bonds	533.6	(43.0)	43.0
Total change	**1,394.1**	**(206.2)**	**206.2**

25) Impairment for Bad and Doubtful Debts

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

Additions analysis

Individual value	Number	Total £
Less than £100	18	485.20
£100 - £500	1	118.70
Total	**19**	**603.90**

Write-off analysis

Individual value	Number	Total £
Less than £100	32	1,954.43
£100 - £500	49	11,263.58
Over £500	15	28,664.31
Total	**96**	**41,882.32**

26) Related Parties

Pensions administration and certain investment functions are performed by the City of Wolverhampton Council, and the costs shown in note 13 above are recharged to the Fund. Contributions of £36.0 million were receivable from the City of Wolverhampton Council for 2014/15 (2013/14: £32.9 million). Balances owed by and to the Council at the year end are shown in notes 18, 19 and 20.

Pensions Committee

Eight members of the Pensions Committee are also members of the Fund (including one substitute member), as set out below:

Pensioner:	Councillors Turner and Page
Active:	Councillors Brookfield, Eling, Hevican, McGregor, Rebeiro and T Singh

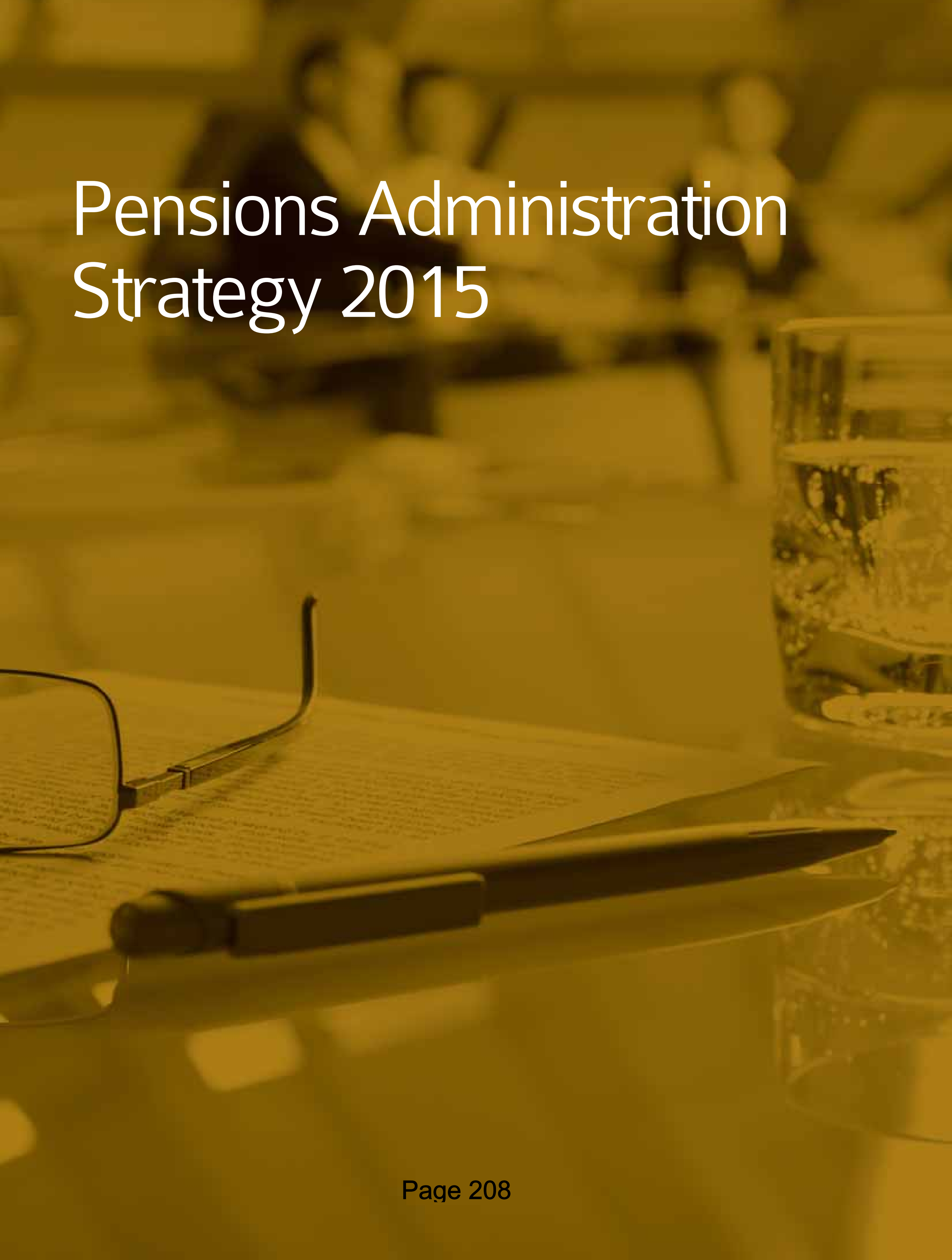
Each member of the Pensions Committee is required to declare any interests relevant to the matters being discussed at each meeting.

There are two employing bodies of the Fund in which a member of the Committee has declared an interest for 2014/15: these are Birmingham Museum Trust Ltd, from which contributions of £0.4 million were receivable during the year, and Walsall Housing Group Ltd, from which contributions of £3.1 million were receivable.

Key Management Personnel

The Fund's senior management comprises five individuals: the Strategic Director of Pensions, the Assistant Director (Investments), the Head of Pensions Administration, the Head of Governance and the Head of Finance (with effect from 1 October)/Fund Accountant (to 30 September). The total salary paid to the senior management team in 2014/15 was £369,000. In addition to this, employer's pension contributions of £75,000 were met from the Fund in respect of these individuals.

Pensions Administration Strategy 2015



Pensions Administration Strategy 2015

Introduction

This is the pension administration strategy of West Midlands Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by the City of Wolverhampton 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 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 April 2015 and is kept under review and revised to keep abreast of changes in scheme and Fund regulations.

West Midlands Pension Fund Administration

Responsibility

The City of Wolverhampton 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
- City of Wolverhampton 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

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 111 6516**

Performance Standards

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.

Pensions Administration Strategy 2015

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

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.

Pensions Administration Strategy 2015

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.	Twice per annum (usually June/July and November/December each year).
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.
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.

Pensions Administration Strategy 2015

Fund 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.
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.

Pensions Administration Strategy 2015

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. Schedule of payments (CON1B) to be received by the 19th calendar day of the month after deduction.
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.

Pensions Administration Strategy 2015

Fund Administration

This 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.	Six weeks 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 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.	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	Six weeks 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.	Six weeks 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.

Pensions Administration Strategy 2015

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 the City of Wolverhampton 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.

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 Performace

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.

Pensions Administration Strategy 2015

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

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 wmpfonline@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

In preparing this administration strategy, the Fund placed it upon its website and carried out a consultation with scheme employers.

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.

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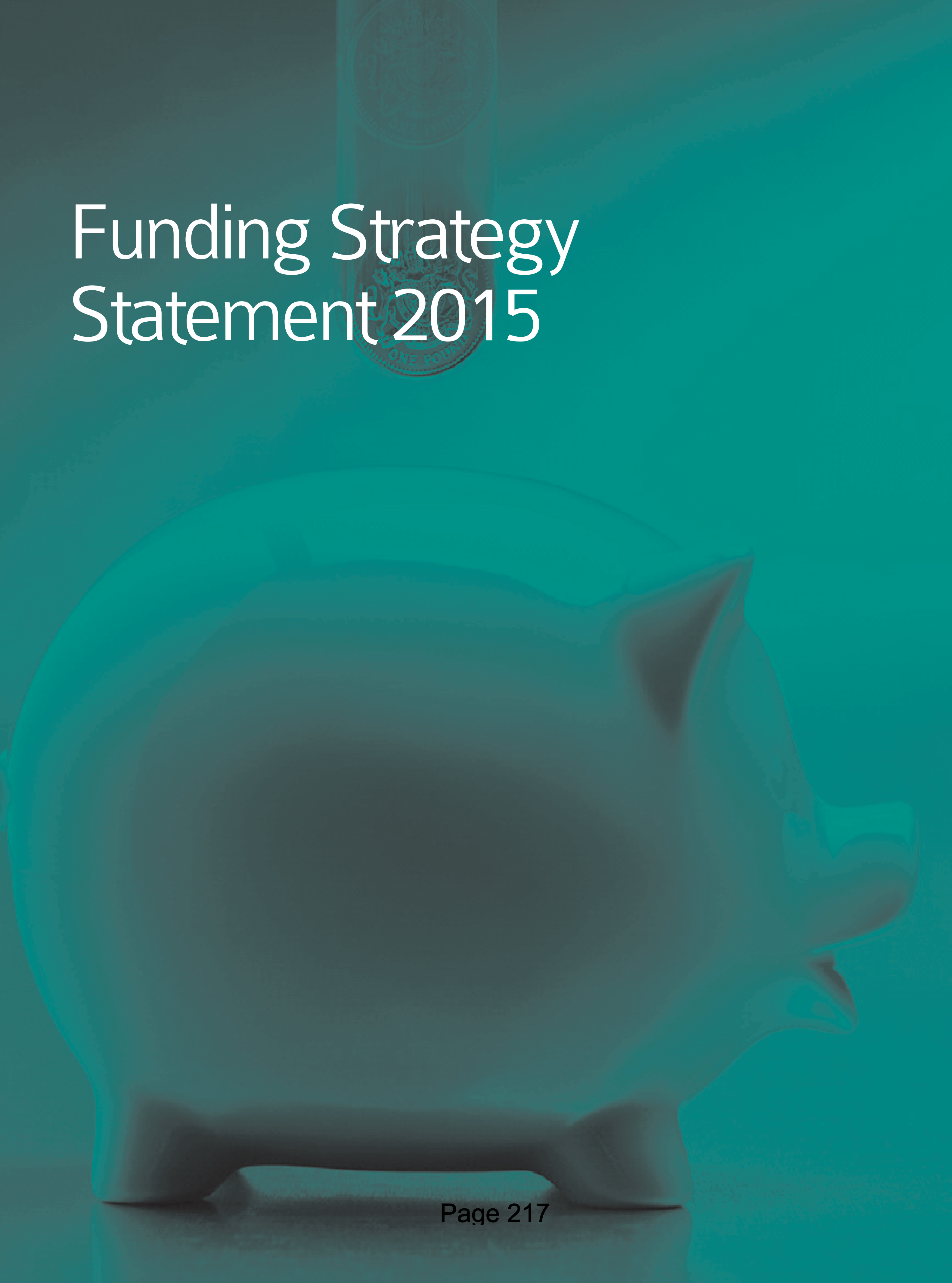


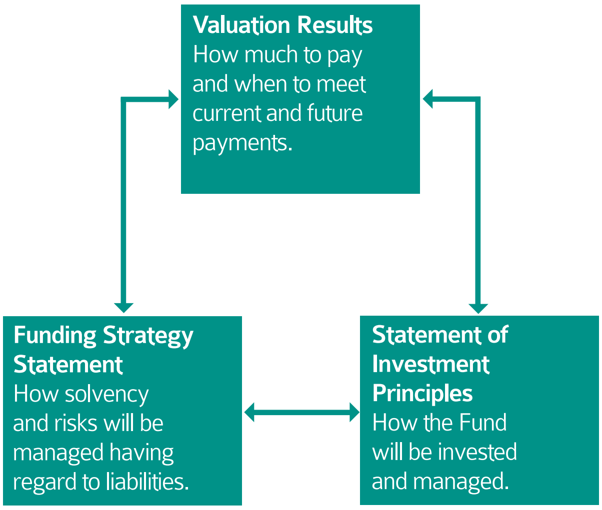
Funding Strategy Statement 2015

1) Introduction

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

1.2 The FSS complements and adds to the Statement of Investment Principles (SIP). The Investment Strategy Statement (ISS) is a supporting document, alongside the actuarial valuation, together with their supporting documentation.

1.3 The statements relate as follows:



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

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

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

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

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

a) investment returns relative to movement in liabilities;

b) increases in longevity of pensioners;

c) falling long-term interest rates.

d) change in CPI inflation expectations

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

a) recognising the long-term nature of local government, so that deficits are recovered over time. At the 2013 valuation this will be adjusted to a maximum of 22 years which compares to 25 years at the 2010 valuation. This is expected to reduce to 19 years at the 2016 valuation;

b) phasing increases in contributions typically over three years where appropriate;

c) recognising the changes to the LGPS from 1 April 2014;

d) recognising the changes in financial markets after the valuation;

e) giving weight to a balanced investment strategy.

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

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

2) Purpose of the Funding Strategy Statement in Policy Terms

2.1 The purpose of this FSS is:

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

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

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

Funding Strategy Statement 2015

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

3) Consultation

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

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

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

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

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

4) Aims and Purposes of the Fund

4.1 The aims of the Fund are to:

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

4.2 The purpose of the Fund is to:

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

5) Responsibilities Of The Key Parties

5.1 The LGPS regulations set out the responsibilities of the key parties which are summarised below.

Further details are available on the Fund's website where operational and management arrangements are set out.

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

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

5.3 The individual employers:

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

5.4 The Fund's actuary:

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

Funding Strategy Statement 2015

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

6) Solvency Issues and Target Funding Levels

6.1 The Fund currently has a strong net cash inflow and can, therefore, take a medium to long-term view on determining employing body contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long-term view. It allows short-term investment market volatility to be managed so as not to cause volatility in employing body contribution rates.

6.2 Nevertheless, the Fund recognizes the different characteristics of the variety of participating employer organisations, and will set funding strategy appropriately having regard to factors such as:

- strength of covenant, and security of future income streams;
- support or guarantor arrangements from scheme employers;
- prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the scheme to new employees.

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

6.3 The Fund's policy as regards participation of non-scheduled Scheme employers, including termination issues, is set out in the comprehensive publication *'Policy on Termination Funding for Admission Bodies'*.

6.4 The LGPS regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements.

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

Determination of the Funding Target and Recovery Period

6.5 The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.

6.6 Underlying these assumptions there are two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment returns can play a valuable role in achieving adequate funding over the longer term.

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

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

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

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

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

  Consequently, the administering authority may, at its discretion, levy contributions for a particular employer that are below, or above, those initially certified by the actuary, where it is deemed appropriate to assist with smoothing or control of contribution rates.
- Where the administering authority does levy an alternative contribution plan for a particular employer, as described above, this will represent an employer-specific funding plan, and will be agreed and documented separately.
- Academies will be treated in accordance with the factors and legislation that lead to their creation. All will be considered to have the same covenant strength as any scheduled body, and their contribution rates will be calculated to meet the broad intentions of ensuring they are in a similar financial position in respect of pension liabilities pre- and post-transfer to academy status at inception. The policy applied to academies will be reviewed from time to time or if any further guidance emerges.

6.9 In determining the above objectives, the administering authority has had regard to:

- the responses made to the consultation with employers on the FSS principles;
- relevant guidance issued by the CIPFA Pensions Panel;
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose; and
- the administering authority's views on the strength of the participating employers' covenants in achieving the objective.

6.10 There will be an overall reserve, established as a contingency to protect the Fund against funding shortfalls, where employers without a guarantor cease participation in the Fund and cannot pay to remove any deficit. The reserve is based upon a review of those employers without a guarantor and the associated liability exposure and the contributions required to establish this reserve have been built into rates assessed for all employers within the Fund at this valuation. This reserve is subject to review at subsequent actuarial valuations.

The Normal Cost of the Scheme (Future Service Contribution Rate)

6.11 In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the 'normal cost'). The method and assumptions for assessing these contributions are also set out in the Appendix.

7) Links to Investment Policy Set Out in the Statement of Investment Principles (SIP)

7.1 The Fund has, for many years regularly used an asset liability study or some other form of stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in the Fund's SIP. The Fund's updated investment strategy has been supporting part of the consultation on the valuation and the FSS. A revised SIP has been produced to reflect the FSS and Investment Strategy.

8) The Identification of Risks and Countermeasures

8.1 Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies those key risks specific to the Fund and the measures being taken or assumptions made to counter those risks.

Funding Strategy Statement 2015

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

Financial

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

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

Demographic

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

Regulatory

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

Governance

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

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

Employers

- Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy. The Fund's approach to the outcome of the valuation has had regard to balancing the needs of funding the liabilities and the cost to employers. This is reflected in the approach to the phasing of increase, the recovery period for meeting any funding gap, together with the risks associated with the investment strategy. It is considered the approach adopted represents an 'affordable' solution taking all factors into account.

  A risk assessment of the sustainability of all employers has been undertaken seeking to establish the risk of an employer failing to meet their pension liabilities. The analysis has looked at the following levels of risk:

  In determining the actual recovery period to apply for any particular employer to employer grouping, the administering authority may take into account some or all of the following factors:

  - the size of the funding shortfall;
  - the business plans of the employer;
  - the assessment of the financial covenant of the employer; and the security of future income streams
  - any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.
  - length of expected period of participation in the Fund.

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Low Risk
Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS. This category would cover:

- a local authority, or equivalent.
- a body for which the Fund has a guarantee of liabilities from a local authority (or its equivalent).
- a body which receives funding from local or central government (eg, colleges and universities).
- a body which has a funding deficiency guarantee from local or central government.
- a best value-type body for which a local authority within the Fund effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 38.

Medium Risk
Scheduled bodies not considered as low risk and admitted bodies with no statutory underpin but:

- can provide satisfactory evidence of financial security (eg, parent company guarantee, bond, indemnity, insurance).
- is part of a group of related or pooled bodies which share funding on default.

High Risk
An admitted body:

- with no external funding guarantee or reserves.
- with a known limited lifespan or fixed contract term of admission to the Fund.
- which has no active contributors and/or is closed to new joiners.
- which relies on voluntary or charitable sources of income.

This analysis indicates the risk to the Fund's solvency and ability to meet prior liabilities to be low. It will, however, continue to be monitored. A number of small bodies have significant financial challenges due to falling revenues.
The Fund will work with these bodies to ensure all interests are considered and an acceptable funding strategy for the pension liabilities is achieved that does not put the Fund's position at an increased risk. In respect of bodies that have fixed-term funding, the aim is that a fully funded position should be achieved with a high degree of certainty by the end of the funding period.

Appendix

Actuarial Valuation as at 31 March 2013

Method and Assumptions Used in Calculating the Funding Target Method
The actuarial method to be used in the calculation of the funding target is the 'projected unit' method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the 'attained age' method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial Assumptions

- Investment return (discount rate)
  A yield based on market returns on UK government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the scheme's accrued liabilities, plus an asset outperformance assumption (AOA) of 1.4%.
  The AOA represent the allowance made, in calculating the funding target, for the long-term additional investment performance on the assets of the Fund relative to the yields available on long-dated gilt stocks as at the valuation date.

- Inflation (consumer prices index - CPI)
  The inflation assumption will be taken to be the investment market's expectation for CPI as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK government gilts as at the valuation date, reflecting the profile and duration of the scheme's accrued liabilities, less an adjustment. The adjustment is taken to be 1.0% pa and is in respect of two factors:

  - the perceived premium investors are prepared to pay to protect against future inflation rises (known as an inflation risk premium).
  - the expectation that CPI is expected to increase at a lower rate than the retail prices index (RPI).

  An adjustment is required in respect of this, as the index-linked investments used to determine the market rate of inflation are indexed with reference to the RPI, and so determine a 'market view' of RPI.

- Salary increases
  The assumption for long-term real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% pa over the inflation assumption as described above. This includes allowance for promotional increases.

  To recognise the relatively low level of salary increases expected in local government in the near future, and as budgeted for in the short term by many employers, the Fund has applied an assumption of 1% pay growth over the next three years reverting to 4.35% (CPI plus 1.75%) thereafter.

  For certain employers (typically with the strongest covenant and where evidence from an employer supports it), the Fund has applied an assumption of 1% pay growth over the next five years reverting to 4.35% (CPI plus 1.75%) thereafter.

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- **Pension increases**
  Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with CPI (eg, guaranteed minimum pensions in respect of service prior to April 1997).
- **LGPS 2014 50:50 take-up**
  The assumed take-up of the 50:50 option, introduced under the LGPS 2014 scheme, has been set at 5% of the membership where justifiable by turnover of employers and size of employer.

  Full details of the assumptions adopted are set out in the actuary's formal valuation report.

Method and Assumptions Used in Calculating the Cost of Future Accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities. The financial assumptions in relation to future service (ie, the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (ie, return in excess of price inflation) of 3.0% pa with a long-term average assumption for price inflation of 2.6% pa. These two assumptions give rise to an overall discount rate of 5.6.% pa.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the regulations for stability in the 'common rate' of contributions. In market conditions at the effective date of the 2013 valuation, this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market-related basis used for the assessment of the funding target. At each valuation, the cost of the benefits accrued since the previous valuation will become a past service liability. At that time, any mismatch against gilt yields and the AOA used for the funding target is fully taken into account in assessing the funding position.

Summary of Key Whole Fund Assumptions Used for Calculating Funding Target and Cost of Future Accrual (the 'Normal Cost') for the 2013 Actuarial Valuation

Long-term gilt yields	
Fixed interest	3.2% pa
Index-linked	(0.4)% pa
Implied RPI inflation	3.6% pa
Adjustment for inflation risk premium and CPI	(1.0%) pa
Implied CPI price inflation	2.6% pa
Past service funding target financial assumptions	
Investment return/discount rate	4.6% pa
Salary increases	4.35% pa
Pension increases	2.6% pa
Future service accrual financial assumptions	
Investment return/discount rate	5.6% pa
Salary increases	4.35% pa
Pension increases	2.6% pa

Principal demographic assumptions

Mortality assumptions	Table	Adjustment
Male normal health pensioners	S1PMA CMI 2012 M (1.5%)	99%
Female normal health pensioners	S1PFA CMI 2012 F (1.5%)	96%
Male ill-health pensioners	As for male normal health pensioners + 3 years (+4 for future ill-health pensioners)	
Female ill-health pensioners	As for female normal health pensioners + 3 years (+4 for future ill-health pensioners)	
Male dependants	S1PMA CMI 2012 M (1.5%)	160%
Female dependants	S1DFA CMI 2012 F (1.5%)	114%
Male future dependants	S1PMA CMI 2012 M (1.5%)	106%
Female future dependants	S1DFA CMI 2012 F (1.5%)	95%

Commutation : 50% take 3/80ths and 50% take maximum lump-sum.

Assumptions Used in Calculating Contributions Payable

Under the Recovery Plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target.

Statement of Investment Principles 2015

Statement of Investment Principles 2015

1) Introduction

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

1.2 Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by 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 determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in section 3 on pages 108 and 109. The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions.

1.3 The roles of the members and committee are:

Pensions Committee Member Principal Accountabilities

1) To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.

2) To put in place and monitor the arrangements for the administration of contributions and payments of benefits as required by the regulations, and the proper management and investment of monies held for the purpose of paying benefits.

3) To determine and review the provision of resources made available for the discharge of the function of the administrating authority.

Key Duties

a) Pensions Committee

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

b) Investment Advisory Sub-Committee

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

The Council delegation to Pensions Committee is as follows:

a) To exercise the functions of the Council in relation to the administration of West Midlands Pension Fund arising by virtue of the Local Government Pension Scheme (Administration) Regulations 2008, and any subsequent related legislation.

b) To exercise all the general powers and duties of the Council granted to Cabinet and cabinet teams and standing bodies provided that those parts of the Council's *Financial Procedure Rules and Contracts Procedure Rules* which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.

c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

d) To ensure that consideration is given to the impact which the Committee's policies and provision of services have with regard to environmental matters.

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

a) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisers to the Fund.

b) To monitor investment activity and the performance of the Fund.

c) To oversee the investment management functions of the Fund.

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

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

1.5 Related Fund policies and statements are:

- Funding Strategy Statement
- Responsible Investment Framework
- Compliance with Myners
- Compliance with the UK Stewardship Code
- Governance Compliance Statement

2) Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

Investment Strategy/Process Beliefs

- Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.
- Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.
- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- Internal asset management benefits the Fund through lower costs, greater transparency and increased focus. Management areas where it is difficult or not possible to obtain the right expertise should be managed externally.

Responsible Investment Beliefs

- Effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term.
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

3) Investment Objectives and Risk

3.1 Objectives

i) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.

ii) Emphasise markets that over time are likely to give better returns.

iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.

iv) Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.

v) Identify innovative return enhancing investment opportunities.

3.2 Risk

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

ii) **Funding Risks**

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

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

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

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

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

The Fund seeks to mitigate systemic risk through a diversified portfolio with a split between active management (alpha) and market returns (beta).

Within the allocation to alpha there is a diverse range of specialist managers with varying targets of risk and return. In addition, the alpha budget is designed to enhance returns from identifying market inefficiencies. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

iii) **Asset Risks**

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk that the currency of the Fund's assets underperforms relative to sterling (ie, the currency of the liabilities).

d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

The Fund manages asset risk as follows:

- It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines.
- By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- By investing across a range of assets, including quoted equities and bonds, the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities.
- The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, it is comfortable taking this risk.
- In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

e) Environmental, social and governance (ESG) risks that are not given due consideration by the Fund or its investment managers. The Fund actively addresses this potential risk through implementation of its Responsible Investment (RI) Framework which is available on the Fund's website.

iv) **Operational Risk**

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

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

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

- the use of a global custodian for custody of assets;
- the use of formal contractual arrangements for all investments; and
- maintaining independent investment accounting records.

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

- maintaining a comprehensive risk register with regular reviews;
- operation of robust internal compliance arrangements; and
- in-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

4) Investment Strategy

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

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

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

The strategy has, over recent years, set a trend of further diversifying the Fund's overall risk away from an overdependence on the equity risk premium.

5) Day-to-Day Management of the Assets

5.1 Investment Portfolios

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

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

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

Where the appropriate skills are not available internally, some specialist external funds and managers are used. The managers used are listed at Appendix A on page 113.

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

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

5.1.1 Expected Return on the Investments

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

5.1.2 Investment Restrictions

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

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

5.2 Additional Assets

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

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

5.3 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. There is no current policy on realising investments to meet benefit outgoings etc, as the Fund's cashflow is positive. The majority of the Fund's investments may be realised quickly if required. Property and private equity, which together represent around 20% of total assets, may be difficult to realise quickly in certain circumstances.

5.4 Monitoring the Performance of Fund Investments

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

Advisers

The Fund uses a range of advisers in addition to its own specialist officers. These are detailed in Appendix C on page 114.

6) Responsible Investment (RI)

6.1 Beliefs and Guiding Principles

The Fund's RI beliefs and guiding principles underpin its RI approach. Key principles are described below.

ESG Integration

The Fund believes that effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential

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impacts is such that a proactive and precautionary approach is needed in order to address them.

The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Engagement Versus Exclusion
Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing its RI approach.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone.

Fund Responsibilities
The Fund aims to:

1) Be aware of and monitor financially material ESG issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Fund will monitor:
   - ESG issues in relation to internally managed investments (equities, direct property);
   - the extent to which the external managers incorporate ESG issues into their investment processes; and
   - hold external managers to account for improvement in their ESG performance over a reasonable timeframe.
2) Make full use of its ownership rights, including voting and engagement activities. Either directly, collaboratively or through specialist service providers:
   - hold constructive dialogue with listed companies;
   - encourage the disclosure by companies of ESG issues; and
   - participate in the development of public policy on ESG issues.
3) Disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of the Fund's beneficiaries first.
4) Participate as a signatory to the Principles of Responsible Investing (PRI) a principles-based framework designed to encourage the incorporation and analysis of ESG into investment decision-making.
5) Keep our beneficiaries aware of our RI activities through:
   - making its RI policy documents public, eg, voting policies, RI policy;
   - providing a summary of the Fund's RI activities in the annual report;
   - publishing aggregate voting and company engagement statistics on a quarterly basis;
   - tracking its progress on implementing its RI strategy using the PRI framework; and
   - striving to be a good corporate citizen, in alignment with what we expect of companies in which we invest.

6.2 Approach to RI

Voting Globally
Where practical, the Fund aims to vote in every single market in which it invests in alignment with corporate governance best practice guidelines[1]. In the interests of sending a consistent signal to investee companies, the Fund has decided to use a third party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests.
At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers.

Engagement Through Partnerships
The Fund uses various engagement platforms to maximise its influence as an active owner in collaboration with other like-minded investors. The Fund's primary engagement partnerships are highlighted below.

Local Authority Pension Fund Forum
The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group encompassing 64 local authority pension funds from across the country with combined assets of over £160 billion. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

- independent research and advice on the ESG risks of companies to inform further stakeholder engagement;
- advice on the governance practices of companies;
- a forum to engage with companies to improve governance practices; and
- proxy voting advice on proxy voting for annual general meetings.

[1] Further details of the Fund's voting approach can be found here: http://www.wmpfonline.com/article/5693/Voting-Globally

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UN-backed Principles for Responsible Investment
The Fund signed the PRI in 2011. The PRI is a set of six aspirational principles[2] designed to encourage and assist investors integrate ESG into their investment processes.

The Fund is an active participant in the PRI's engagement program. The Fund considers the following criteria amongst others in determining its participation in PRI-related initiatives:

- Initiative is in alignment with the Fund's RI policy.
- The ESG issue or company of concern is considered to be particularly material to the Fund.
- Certain impediments (eg, geographic) make investor collaboration the preferred option.

Industry Engagement
In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to achieve the aim of promoting sustainable growth.

7) Compliance with this Statement

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

8) Compliance with Myners

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

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

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

9) Review of this Statement

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

10) Stocklending

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

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

[2] The six principles can be found here: http://www.unpri.org/about-pri/the-six-principles/

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Appendix A - Portfolio Structure May 2015

The structure summary is as follows:

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

PFID - Pension Fund Investment Division (Direct)

Appendix B - Investment Benchmark

	Medium-Term Asset Allocation May 2015		Medium-Term Strategic Ranges
	%	%	%
Quoted equities		**48**	**40-60**
UK	8.0		
Europe	7.5		
North America	7.5		
Japan & Far East	7.5		
Emerging markets	7.5		
Global equities	10.0		
Private equity	10.0		
Total equities		**58**	**50-70**
Fixed interest		**19**	**15-25**
UK index-linked	6.0		
UK gilts	3.0		
Corporate bonds	5.5		
Emerging market debt	3.5		
Cash	1.0		
Alternative		**23**	**15-25**
Direct property	7.0		
Indirect property	3.0		
Real assets and infrastructure	6.0		
Absolute return strategies	7.0		
Total non-equities		**42**	**30-50**
Total Fund		**100**	

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

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

- Fund's overall exposure to UK is of the order of 33%
- Regional overseas equities:
  - 50% US and Europe
  - 50% Asia and emerging markets
- Fixed interest:
  - c50% stabilising
  - c50% return seeking

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Appendix C - Advisers May 2015

Hymans Robertson
Investment policy, general investment matters.

Mercer Human Resource Consulting
Actuarial matters

Knight Frank
Agricultural property management matters

Knight Frank
Independent property valuations

Savills
Independent agricultural property valuations

Entec
Planning matters (agricultural holdings)

Lawrence Gould
Independent agricultural property advice

Deloitte
Investment management practices and regulations

PIRC
Company governance issues

HSBC
Custodian, performance measurement, stocklending

Appendix D - List of Suitable Investments

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

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

Appendix E - List of Acceptable Investment Vehicles

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

The SIP links with Note 24 of the financial statements (pages 85 to 88 of the annual report) relating to risks arising from financial instruments. The table below details the disclosures of the risk areas within the note and the cross reference to the SIP:

Note 24 Risk Area	Link to SIP	SIP Section
Investment	Investment strategy	3
Counterparty	Custody	3.2 iv) b
Credit	Credit default	3.2 iv) c
Liquidity	Asset risks	3.2 iii) b
Market	Asset risks	3.2 iii)
Foreign exchange	Asset risks	3.2 iii) c
Reputation	Operational risk	3.2 iv)

Responsible Investment Framework 2015

1) Introduction

This framework defines the commitment of West Midlands Pension Fund ('the Fund') to responsible investment (RI). Its purpose is to detail the approach that Fund aims to follow in integrating environmental, social and governance (ESG) issues in its investments. It is considered supplementary to the Fund's Statement of Investment Principles and thus in alignment with its fiduciary duty.

1.1 Beliefs and Guiding Principles

The Fund's RI beliefs and guiding principles underpin its RI approach and are described below.

ESG Integration

The Fund believes that effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Engagement Versus Exclusion

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing its RI approach.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone.

Fees and Incentives

Managing fees and costs matter in low-return environments. Fee arrangements with external fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests. The Fund recognises that it is part of its fiduciary duty to ensure that there is appropriate alignment.

An Evolving and Flexible Approach

The Fund recognises that it, along with the entire investment chain, is on a journey with respect to RI. This framework will remain flexible and will evolve over time to reflect evolving market developments.

1.2 Oversight and Application

The Pensions Committee is at all times responsible for the Fund's investments, including oversight of the RI strategy. Responsibility for oversight of the Fund's RI framework sits with the Strategic Director of Pensions and Assistant Director (Investments). Responsibility for the implementation of this framework sits with the RI Officer. This policy applies to all members of the Pensions Committee and the Fund officers.

The Pensions Committee will review this policy at a minimum annually (in June of each year), or at such time as the Fund sees fit to revise its RI policies and procedures.

1.3 Content

The RI framework is divided into two distinct sections:

- What the Fund expects of itself, companies and fund managers with respect to RI (Section 2).
- How the RI beliefs and guiding principles are implemented in practice (Section 3).

Definitions are also provided in Section 4.

2) RI Expectations

2.1 Fund

2.1.1 General

The Fund aims to:

1) Be aware of and monitor financially material ESG issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Fund will monitor:
   - ESG issues in relation to internally managed investments (equities, direct property);
   - the extent to which the external managers incorporate ESG issues into their investment processes; and
   - hold external managers to account for improvement in their ESG performance over a reasonable timeframe.
2) Make full use of its ownership rights, including voting and engagement activities. Either directly, collaboratively or through specialist service providers:
   - hold constructive dialogue with listed companies;
   - encourage the disclosure by companies of ESG issues; and
   - participate in the development of public policy on ESG issues.
3) Disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of the Fund's beneficiaries first.

Responsible Investment Framework 2015

4) Participate as a signatory to the Principles of Responsible Investing (PRI) a principles-based framework designed to encourage the incorporation and analysis of ESG into investment decision-making.

5) Keep our beneficiaries aware of our RI activities through:
   - making its RI policy documents public, eg, voting policies, RI policy;
   - providing a summary of the Fund's RI activities in the annual report ;
   - publishing aggregate voting and company engagement statistics on a quarterly basis
   - tracking its progress on implementing its RI strategy using the PRI framework.

5) Strive to be a good corporate citizen, in alignment with what we expect of companies in which we invest.

2.1.2 Climate Change

The Fund aims to:

- encourage improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives, for example via our partnership with the LAPFF, the Carbon Disclosure Project (CDP), and the Institutional Investors Group on Climate Change (IIGCC);
- support – and where applicable co-file – reasonable shareholder proposals to disclose/justify a company's approach to climate change risk;
- review its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;
- contribute to public policy with regard to climate change as it relates to investment considerations through participation with organisations such as the IIGCC. In support of this aim, the Fund is a signatory to the Global Investor Statement on Climate Change[1];
- increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and
- keep up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes.

2.2 Companies

The Fund expects UK companies to adhere to the UK Corporate Governance Code[2] on a comply or explain basis. Further, the Fund has bespoke UK corporate governance guidelines which are available on its website[3], which aim to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards.

The Fund expects companies outside the UK to adhere to international voting principles[4], recognising local application and development.

Environmental and Social Risks

The Fund expects companies to manage and disclose its environmental and social risks to the extent required for an understanding of the development, position and performance of the company. In alignment with the Association of British Insurers' position[5], there are aspects of environmental and social reporting on which the Fund places particular value given their relevance across all sectors, its holistic approach to risk management, and the view that owners should not micro-manage companies. This is narrative reporting which:

- sets ESG risks in the context of the whole range of risks and opportunities facing the company;
- contains a forward looking perspective; and
- describes the actions of the board in mitigating these risks.

In terms of the specific environmental and social issues to focus upon, the Fund prefers to take a case-by-case, sector-based approach.

2.3 Fund Managers

2.3.1 Due Diligence

The Fund collects the following information from each manager before they are appointed where applicable to the asset class:

- Copy of their ESG, active ownership policies or equivalent which articulates how ESG factors (stemming from research, active ownership activities or other sources) are integrated into their investment process
- Case studies or examples of where ESG issues have influenced an investment decision
- Information on the process for integrating any third party ESG data (for example, MSCI) into their company financial models, investment strategies and portfolio construction
- RI reporting format
- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and Stewardship Code, copy of their PRI public report and annual assessment scores if applicable.

2.3.2 Appointment

The Fund assesses the ESG capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, the Fund takes a balanced consideration of all relevant factors including ESG. However, the Fund will pay particular attention to adherence to relevant soft regulatory codes[6] depending on the market in which it invests.

[1] http://www.iigcc.org/publications/publication/2014-global-investor-statement-on-climate-change
[2] https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf
[3] http://www.wmpfonline.com/article/5693/Voting-Globally
[4] Draws from international best practice corporate governance standards such as OECD and ICGN: http://www.wmpfonline.com/article/5693/Voting-Globally
[5] https://www.ivis.co.uk/media/5893/ABI_RID_guidelines.pdf
[6] For example, UK and Japanese Stewardship Codes

Responsible Investment Framework 2015

In practice, this means the Fund is willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over time. In alignment with our guiding principles on 'engagement versus exclusion', the Fund believes that there is added value in working with them to improve their approach.

2.3.3 Monitoring and Reporting

Each external fund manager is expected to report[7] at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of ESG issues into its investment and active ownership activities.
- How investment and active ownership functions are combined to protect and/or enhance shareholder value
- How the manager exercised the Fund's voting rights.
- Any outcomes arising from the manager's engagement with companies and their effectiveness.

Further details on the Fund's future expectations of listed equity fund managers on RI reporting can be found on the Fund's website here: http://www.wmpfonline.com/article/5708/Engagement-through-partnerships

3) RI Implementation

The Fund's active ownership approach can be divided into three distinct areas: **voting globally, engagement through partnerships** and **shareholder litigation**. This section briefly outlines the Fund's processes for each.

3.1 Voting Globally

Where practical[8], the Fund aims to vote in every single market in which it invests. In the interests of sending a consistent signal to investee companies, the Fund has decided to use a third party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers. However given market developments in this area, the Fund will re-evaluate this position on a yearly basis.

Reference to the Fund's voting policies is provided in Section 2.2 under 'Company Expectations'.

Securities Lending Programme

The Fund has an active securities lending programme. To ensure that the Fund is able to vote all its shares at important meetings has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. The Fund monitors the meetings and proportion of the securities on loan, and will restrict and/or recall lent stock in select circumstances.

3.2 Engagement Through Partnerships

The Fund uses various engagement platforms to maximise its influence as an active owner in collaboration with other like-minded investors. The Fund's primary engagement partnerships are highlighted below.

Local Authority Pension Fund Forum

The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund's Strategic Director of Pensions is the Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 64 local authority pension funds from across the country with combined assets of over £160 billion. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

- independent research and advice on the ESG risks of companies to inform further stakeholder engagement;
- advice on the governance practices of companies;
- a forum to engage with companies to improve governance practices; and
- proxy voting advice on proxy voting for annual general meetings.

UN-backed Principles for Responsible Investment

The Fund signed the PRI in 2011 and the Fund's Assistant Director (Investments) is a member of the PRI Board[9]. The PRI is a set of six aspirational principles[10] designed to encourage and assist investors integrate ESG into their investment processes.

The Fund is an active participant in the PRI's engagement program. The Fund considers the following criteria amongst others in determining its participation in PRI-related initiatives:

- Initiative is in alignment with the Fund's RI policy.
- The ESG issue or company of concern is considered to be particularly material to the Fund.
- Certain impediments (eg, geographic) make investor collaboration the preferred option.

Industry Engagement

In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to achieve the aim of promoting sustainable growth. The Fund considers these initiatives on a case-by-case basis.

[7] Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.
[8] Issues such as power of attorney or share blocking in certain markets may prevent the Fund's ability to do so
[9] http://www.unpri.org/about-pri/pri-governance/pri-association-board-members/
[10] The six principles can be found here: http://www.unpri.org/about-pri/the-six-principles/

Responsible Investment Framework 2015

3.3 Shareholder Litigation

The Fund frequently hold securities that are the subject of individual and class action securities litigation. There are a number of litigation options available when a company has violated securities laws that result in losses to the Fund.

For US-based claims, the options would be to:

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

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

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

- advantages and disadvantages of the Fund becoming actively involved;
- relative size of the Fund's potential losses compared to other organisations;
- likelihood of success; and
- whether the Fund is fully indemnified against costs, expenses, counterclaims and any other losses.

4) Definitions

Responsible Investment
'The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.'[11]
The Fund also supports the PRI's definition of responsible investment which can be found here:
http://www.unpri.org/introducing-responsible-investment

ESG
Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.

Governance
The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Active Ownership
Refers to the responsibility of the Fund to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.

Fund
West Midlands Pension Fund

Pensions Committee
Body established by City of Wolverhampton Council (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund's assets, which has representation from the seven West Midlands metropolitan district councils and local trade unions.

[11] Mercer, ABC of ESG, 2014

Compliance With The Myners' Report

Introduction

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

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

Executive Summary

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

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

The Myners' Principles are seen as supporting this approach.

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

Compliance With The Myners' Report

Demonstration of Compliance with Myners' Principles

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

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

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
Principle 1: Effective Decision-Making		
Administering authorities should ensure that: • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	1) Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers. 2) Functions can be delegated and investment managers used, but overall responsibility rests with members. 3) Proper advice should be taken and the regulations define this as: "the advice of a person who is reasonably believed...to be qualified by his ability in and practical experience of financial matters." 4) The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour. 5) All councils must appoint one of its officers to have responsibility for ensuring arrangements are in a place for the proper/financial administration of its financial affairs. 6) The role of the Pensions Committee and key officers should be clear in the Council's constitution. 7) Best governance practices should be followed. 8) The Pensions Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making.	The Fund produces a business plan and a medium-term financial plan, together with supporting codes and policies: • SIP (Statement of Investment Principles) • FSS (Funding Strategy Statement) • Governance Statement The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff, use of professional advisors where necessary, in accordance with the Council's constitution and Fund's compliance manual and procedures. A trustee training policy is in place for Pensions Committee IASC members, including non-voting members/observers. Training is structured to fulfil the CIPFA knowledge and skills requirements. Training needs analysis is carried out subjectively by senior managers and through evaluation forms which ask members which areas they feel they need training on. All training is logged and disclosed in the annual report.
Principle 2: Clear Objectives		
An overall investment objective(s) should be set out for the fund that takes account of the Scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and Scheme employers, and these should be clearly communicated to advisors and investment managers.	1) A three-yearly actuarial valuation as required by regulation. 2) A full range of investment opportunities should be considered. 3) A strategic asset allocation should be used and reviewed regularly. 4) Robust investment management agreements should be used. 5) The targeted investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process. 6) The provision for taking proper advice should be demonstrated.	The Fund takes a range of specialist advice in formulating its investment strategy, SIP and FSS, ensuring all link to the common objectives that arise from the actuarial process with emphasis on managing investment risk relative to fund cashflows and need for stable contribution rates. These policies are reviewed regularly and interim valuations used to track progress between valuations. The Pensions Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from professional and experienced advisors. The Investment Sub-Committee regularly reviews new investment opportunities and make up of asset portfolios. Robust agreements are in place with investment managers.

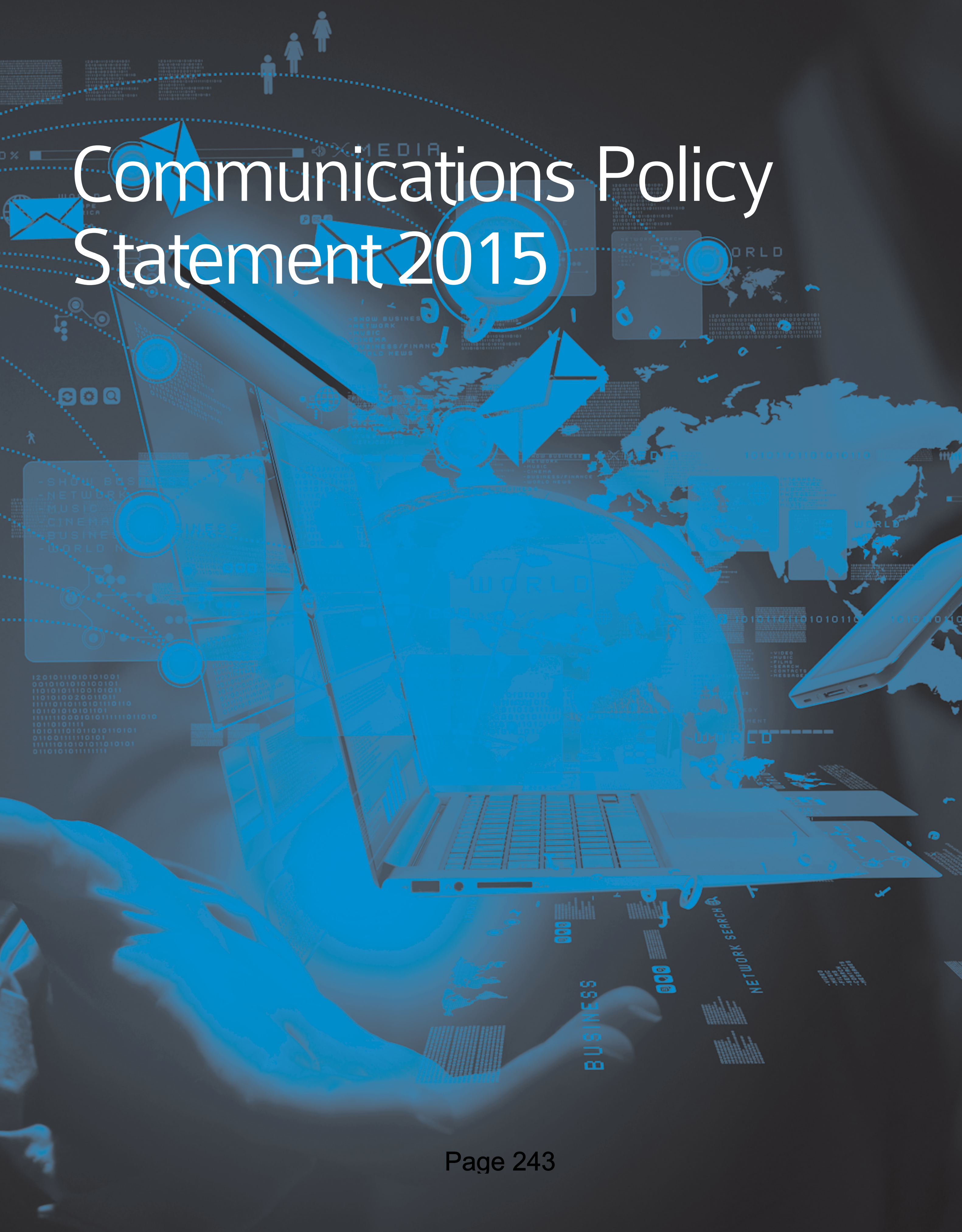
Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
Principle 3: Risks and Liabilities		
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) The Pensions Committee should set a clear investment objective. 2) Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised. 3) Appropriate guarantees should be used to protect against employer default. 4) The need for affordable, stable contributions should be reflected in the work of the Pensions Committee. 5) The Pensions Committee should satisfy itself that the standards of internal controls applied are sound and robust. 6) An understanding of risk should be demonstrated and reported upon.	Members set the Fund's investment strategy having regard to the liabilities and achieving stable affordable contributions, consulting with interested parties regularly. The investment setting process takes account of short-term market volatility, but with strong positive cashflows places great emphasis on the medium to long-term view. The Fund's annual report includes a statement on overall risk management of all activities.
Principle 4: Performance Assessment		
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	1) Extensive formal performance measurement of investments, managers and advisors should be in place and relate to the investment objectives. 2) Effectiveness of the Pensions Committee should be reported upon at regular intervals. 3) Returns should be measured on a quarterly basis in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile.	The overall investment objectives link to portfolios and the individual investment objectives. The performance measurement is made up of targets driven by the investment strategy and its component parts. An external measurement service is used to provide robust and reliable information. Off-target performance is reviewed by the Pensions Committee and Investment Sub-Committee and appropriate action agreed. The regular annual report details the work and achievement of the Committee.

Compliance With The Myners' Report

Principles	Key points	Demonstration of Compliance
Principle 5: Responsible Ownership		
Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • include a statement of their policy on responsible ownership in the statement of investment principles. • report periodically to scheme members on the discharge of such responsibilities.	1) Disclose approach to responsible ownership in SIP. 2) Define expectations of managers on responsible ownership. 3) The former Institutional Shareholders' Committee of Principles for institutional shareholders and/or agents (now the UK Stewardship Code) should be followed.	The Fund executes its ownership responsibilities through its Responsible Investment Framework. Voting and responsible investment policies, as well quarterly reports on voting and engagement, are published on the Fund's website. The Fund has also published a statement of compliance with the UK Stewardship Code which, in respect of investments in the United Kingdom, requires managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards. Compliance with the UK Stewardship Code is required in Investment Management Agreements with fund managers. The Fund is a signatory to the UN-backed Principles for Responsible Investment.
Principle 6: Transparency and Reporting		
Administering authorities should: • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • provide regular communication to scheme members in the form they consider most appropriate.	1) Maintain a sound governance policy and demonstrate its implementation. 2) Maintain a communication policy and strategy. 3) Ensure all required strategies and policies are published in a clear transparent manner. 4) Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available.	The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferred and pensioners receive regular communications on the Fund's activities and performance. A comprehensive annual report is produced.

Communications Policy Statement 2015



Communications Policy Statement 2015

Communications Report

During 2014/2015, the Fund continued to look for ways to improve how we communicate with our stakeholders and, in doing so, recognised the shift towards electronic ways of working.

Since April 2006, each pension fund administering authority has had to prepare, publish and regularly review a communications policy statement.

This document outlines the Fund's communications policy in line with that requirement and covers the following categories in our regular communication activity:

- Communicating with scheme members;
- Member self-service (the web portal);
- Communicating with members' representatives;
- Communicating with prospective members;
- Communicating with employing authorities;
- Detailing our customer engagement strategy.

The primary communication activity of the past twelve months was to continue to educate and inform members of the changes to the Local Government Pension Scheme (LGPS) effective as at 1 April 2014. As with all Fund communication, this was completed in a multi-media approach, including educational material in benefit statements, bespoke mailings, tailored briefing notes, as well as face-to-face surgeries, roadshows and presentations.

One of the biggest communication projects of the financial year was the redesign and upgrade of the Fund's website, wmpfonline.com. This project was tackled with the recent scheme changes in mind. In this electronic age, we understood that our redesigned website would be the first point of contact for our members curious about the scheme changes.

In delivering this change, we recognised that engagement with our customers would be key to our success, and our ability to understand their use of the website meant we were able to shape the design around their needs. We created and analysed customer service surveys and contacted members who had given feedback on our website in the past to invite them to give opinions on our new design. We set up similar groups with our staff, trustees and employers to ensure all of our stakeholders had helped to shape the design of the new site.

The efficiency savings we sought with the new design for wmpfonline.com were not just for the Fund. In our conversations with members and employers, we recognised that they wanted to spend less time looking for information, so the design reflected this with at least three routes to find pages quickly from the initial landing page.

We believe results speak for themselves: usage of the website has increased since the redesign. The Fund's website received 91,865 visits in the period 1 April 2014 to 31 March 2015, which is an increase from 87,804 for the financial year 2013/2014. Perhaps more telling is that users are reporting a more positive experience using the site. Prior to the launch of the website, 59% of our customers rated our website as being good or excellent; following launch, this has increased to almost 75% of members as more people use the site.

Getting users comfortable in self-serving for pensions information with the website has developed our members' confidence in web platforms and assisted in driving registration for the Fund's online portal which is used by members and employers to securely access individual pension records. The increased marketing for the web portal in the financial year saw web portal registrations increase by over 145% when compared to 2013/14.

Antony Lowbridge-Ellis
Communications Officer,
West Midlands Pension Fund
Date: May 2015

Communications Policy Statement 2015

Background

West Midlands Pension Fund is one of the largest pension funds in the United Kingdom with over 275,000 members, in excess of 450 individual employers and over £11bn invested. To maintain a high level of customer service success, it is vital for the Fund to understand the needs of our customers as well as their views on the services and products that we provide. This will assist in maintaining the high level of industry reputation that the Fund holds. The Fund achieves this understanding by ensuring regular dialogue with our stakeholders is established and maintained as part of day-to-day business.

Since April 2006 each pension fund administering authority has had to prepare, publish and regularly review a communications policy statement.

This document outlines the Fund's communications policy in line with that requirement and covers the following categories in our regular communication activity:

1) Communicating with scheme members;
2) Member self-service (the web portal);
3) Communicating with members' representatives;
4) Communicating with prospective members;
5) Communicating with employing authorities;
6) Customer engagement strategy.
7) Communicating with scheme members

1) Communicating With Scheme Members

Annual Benefit Statement

An annual benefit statement is made available online for all active and deferred members who are contributing to the Fund or have not received payment of their deferred benefits at the previous financial year. These statements are made available through the Fund's web portal self-service facility. Benefit statements can be issued in paper form on written request.

If a benefit statement cannot be made available, due to incomplete or inaccurate data, we will notify members of this by letter.

wmpfonline.com

The Fund maintains an extensive online resource at wmpfonline.com containing information about the scheme and the details about the current activities of the Fund. There are also links to other relevant partner organisations.

Scheme Literature

An extensive range of scheme literature is produced and updated by the Fund for all categories of member. Copies of scheme literature are made available at the Fund's website, wmpfonline.com.

Twitter Account

West Midlands Pension Fund has a twitter account (@wmpfonline) where we provide short information updates. The Fund aims to tweet at least weekly through this service.

Telephone Helpline: 0300 111 1665

A dedicated low-call rate telephone customer service telephone line is provided for scheme members and is publicised in all outgoing communications.

Pension Roadshows

The Fund stages information events in members' places of work. Additional events can be held on request, particularly when there may be organisational changes occurring which have pensions implications.

Pensioner Pay Advice Slip and Club Together

All Fund members in receipt of a pension receive a combined pay advice slip and P60 in April of each year. In the months of May through to March, we will only send a pay advice slip when there is a variance of £10 in their gross or net payment. For scheme pensioners that are paid quarterly and annually, the Fund will issue a pay advice every time a payment is made (June, September, December and March).

Scheme pensioners can also register to use the Fund's web portal application where pay advice information can be viewed electronically and printed at any time following the payment date.

Mailed with the April combined pay advice slip/P60 is a lifestyle newsletter called *Club Together*. *Club Together* is provided by Paymaster (1836) Limited on behalf of the Fund.

2) Member Self-Service (the Web Portal)

An online portal gives members secure access to their Local Government Pension Scheme (LGPS) records.

The facility provides members with the opportunity to update their personal details, ask questions about their benefits, view annual benefit statements and run pension estimate calculations. Members in receipt of pension are also able to view and change UK bank details via the portal.

3) Communicating With Members' Representatives

Materials available to members can also be provided on request to their representatives or through wmpfonline.com.

4) Communicating With Prospective Members

Scheme Booklet and Website

Upon appointment with their employer, all prospective scheme members will be provided with a link to the Fund's website where they can access scheme booklets. The website also provides information in order that members are able to make an informed decision about contributing to the Local Government Pension Scheme (LGPS) and how to opt out of the scheme.

Corporate Induction Courses

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

Trade Unions

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

Communications Policy Statement 2015

5) Communicating With Scheme Employers

e-Newsletter
An electronic newsletter, entitled *Employer's Briefing Note* is issued on a bi-monthly basis to all employers. This is used to communicate the activities of the Fund and inform of any regulatory changes which may impact on the employer's function or their members' pension benefits.

wmpfonline.com and Web Portal
The Fund maintains a dedicated area of its website for scheme employers containing news, learning materials and other electronic resources.

Each employer can request to join the Fund's web portal. This allows them secure access to the membership details of their current employees. The portal provides employers with the ability to make changes to member records including working hours and personal details. The web portal also provides the facility to calculate early retirement estimates and any associated early retirement costs.

Dedicated Telephone Helpline: 0300 111 6516
A dedicated low-call rate employer customer service line was introduced in 2010. This allows the Fund to respond to employer generated telephone calls at peak times.

Annual General Meeting and Mid-Year Review for Employers
The Fund invites each employer to our annual general meeting each winter. This event is used to communicate strategic issues, performance, legislation changes and triennial valuation matters. In addition to this the Fund also holds a similar employer event each summer where employers are kept up-to-date with important issues through presentations and roundtable discussions.

Employer Peer Group
A group consisting of a cross-section of Fund employers meet quarterly to provide feedback on the communication initiatives planned by the Fund for fellow employers.

6) Customer Engagement Strategy

In addition to this document, West Midlands Pension Fund also publishes a *Customer Engagement Strategy*.

The document aims to detail:

- who are our customers?
- what is customer engagement to the West Midlands Pension Fund?
- when should customer engagement be considered?
- what types of engagement activities do we undertake?
- how do we use the output from customer engagement activities?
- how do we feed back to our customers results and actions from their engagement with us?

The document provides some principles for customer engagement for West Midlands Pension Fund, including its customer journey mapping (CJM) programme. As we aim to tailor our strategy to individual customers, the document should be viewed as a guide and not as an exhaustive list of engagement activities.

Our *Customer Engagement Strategy* is updated annually and is available from wmpfonline.com.

Further Information

Administering Authority Policy Statement 2015

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

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

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

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

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

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

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

Right to Terminate Admission Agreement [RSch2]

The administering authority has the right to terminate an admission agreement in prescribed circumstances. The Council shall retain the right to terminate an admission agreement in the event of:

a) The insolvency, winding up or liquidation of the admission body,

b) A material breach by the admission body of any of its obligations under the admission agreement or these regulations which has not been remedied within a reasonable time, or

c) A failure by the admission agreement to pay any sums due to the Fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

Additional Pension Contributions [R16]

The administering authority may turn down a request to pay an additional pension contribution (APC) or shared-cost additional pension contribution (SCAPC) over a period of time where it would be impractical to allow such a request. The member would still be able to pay via a single lump-sum payment.

Due to the administration costs involved requests to pay additional pension contributions or shared-cost additional pension contributions over a period of time in order to address an absence from work of less than ten working days will be refused unless there are exceptional circumstances.

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

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

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

Payment of Additional Voluntary Contributions on the Death of a Member [R17]

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

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

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

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

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

Pension Accounts [R22]

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

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

Administering Authority Policy Statement 2015

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

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

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

Retirement Benefits [R30]

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

The administering authority may also in cases where the current employer or the former employer has ceased to be a Scheme employer may consent to waive, in whole or in part the actuarial reduction on benefits paid on flexible retirement. Where a request is received, it will be considered on an individual basis and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justified.

Strain on the Fund [R68]

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

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

Switching on the Rule of 85 [TP Sch 2]

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

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

Waiving the Reduction [TP Sch 2 & B30]

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

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

Strain on the Fund [TP Sch 2]

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

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

Extension of the Time Limit to Draw Benefits [R32]

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

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

Commutation of Small Pensions [R34 & B39]

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

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

Independent Registered Medical Practitioner – Approval [R36 & A56]

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

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

Certificate Produced by an IRMP Under the 2008 Scheme [TP]

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

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

Early Payment on Ill Health Grounds - Deferred Member [R38]

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

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the independent registered medical practitioner.

Administering Authority Policy Statement 2015

Early Payment on Ill Heath Grounds – Deferred Pensioner Member [R38]

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

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the independent registered medical practitioner.

Payment of the Death Grant [R40, R43, R46, TP17 & B23, B32, B35]

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

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

No Double Entitlement - Benefits Due Under Two or More Regulations [R49 & B42]

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

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

Admission Agreement Funds [R54]

The administering authority may establish an admission agreement fund.

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

Governance Compliance Statement [R55]

The administering authority must prepare a governance policy stating whether the administering authority delegates its functions or part of its functions in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority, and if they do so delegate, state:

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

The policy must also state:

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

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

Funding Strategy Statement [R58]

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

The *Funding Strategy Statement* will be prepared, maintained and published. A copy will be made available on our website at wmpfonline.com.

Pension Administration Strategy [R59]

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

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

Communications Policy [R61]

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

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

Revision of Employer's Contribution Rate [R64]

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

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

Aggregate Scheme Costs – Revised Certificates [R65]

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

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

Employer Contributions – Dates for Payment [R69]

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

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

Administering Authority Policy Statement 2015

Information Provided by Employers About Contributions – Frequency and Format [R69]

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

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

Notice to Recover Costs Due to Employer's Performance [R70]

The administering authority will decide to issue the employer with a notice to recover additional costs incurred as a result of the employer's level of performance.

The Council will review from time to time whether to issue an employer with notice to recover additional costs incurred as a result of the employer's level of performance.

Employer Payments – Interest on Overdue Payments [R71]

The administering authority may charge interest on payments by employers which are overdue.

The Council reserves the regulatory-prescribed right to require interest to be paid when payments are overdue by more than one month. Interest must be calculated at one per cent above base rate on a day-to-day basis from the due date to the date of payment and compounded with three monthly rests.

Procedure to be Followed When Exercising Stage 2 Dispute Functions and the Manner in Which Those Functions are to be Exercised. [R76 & A60]

The administering authority will decide how it will exercise its stage-two dispute procedure and the procedure to be followed.

The review would be undertaken by a person not involved in the first-stage decision and by a person appointed to deal with disputes referred to it under stage 2. The Council will ensure suitable procedures are in place.

Appeal to the Secretary of State Against Employer Decision [R79 &A63]

The administering authority may appeal to the Secretary of State against an employer decision or lack of an employer decision.

The Council will appeal to the Secretary of State if it believes an employer has made (or failed to make) a decision that is both wrong in law and material and where we have been unable to persuade the employer to alter its actions.

Exchange of Information [R80]

The administering authority shall specify the information to be supplied by employers to enable the administering authority to discharge its function.

The Council will specify the information that is to be supplied by employers having regard to the regulatory requirements and best practice.

Making Payments in Respect of Deceased Person Without Probate/Letters of Administration [R82 & A52]

The administering authority may pay the whole or part of the amount due from the Fund to the personal representatives or any person appearing to be beneficially entitled to the estate without the production of probate or letters of administration where the amounts due are less the amount specified in section 6 of the Administration of Estates (Small Payments) Act 1965.

Payment will normally be made without the production of probate or letters of administration where the amount is below the specified amount.

Payments for Persons Incapable of Managing Their Affairs [R83 & A52]

The administering authority may decide where a person (other than an eligible child) appears incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person to be applied for the benefit of the member.

Where in the Council's opinion a member is unable to manage their own affairs then, having considered the individual circumstances of the particular case, they may decide to pay some or all of the benefits to someone else to be applied for the benefit of the member.

Date to Which Benefits Shown on Annual Benefits Statement are Calculated [R89]

The administering authority will decide the date to which benefits shown on the annual benefits statement are calculated.

The date will be selected having had regard to regulatory requirement and best practice.

Bulk Transfer (Transfer of Undertakings) [R98]

The administering authority must agree any bulk transfer payment.

The terms of the bulk transfer will be discussed with the Fund's actuary and, once all parties are in agreement, payment will be made.

Transfers into the Fund and Extension of 12-Month Time Limit [R100]

The administering authority may accept a transfer value of pension rights into the Fund and may also extend the time limit of 12 months from the date the member first became an active member in their current employment.

The Council will accept a transfer value where a request is made. The Council will only agree to extend the time limit where the appropriate employer has agreed to extend the time limit.

Final Pay Reductions [TP]

The administering authority will decide whether to use an average of three years pay for final pay purposes where the member has died before making an election.

The pay figure which provides the highest overall level of benefits will be selected.

Administering Authority Policy Statement 2015

Permanent Reductions in Pay- Certificates of Protection [TP & TSch1 &L23(9)]

The administering authority will decide for a member who has a certificate of protection who has died before making an election which pay figure should be used for final pay purposes.

The pay figure which provides the highest overall level of benefits will be selected.

Eligible Child – Ignoring Breaks [RSch1 & TP]

The administering authority may treat a child as being in continuous educational or vocational training despite a break.

The Council will accept short breaks and also gap years as being breaks in education, and will restart a suspended child's pension at the end of such a break or gap.

Financial Dependence /Interdependence of Cohabiting Partner [RSch &TP& B25]

The administering authority will decide upon the evidence required to determine the financial dependence or financial interdependence of the cohabiting partner and the scheme member.

The Council will provide details of the evidence required taking account of any guidance provided.

Abatement of pre-1 April 2014 Pension [TP & A70]

The administering authority shall decide whether and how to abate the pre-1 April 2014 pension element following re-employment of a scheme pensioner by a local government employer.

In the event of a scheme pensioner obtaining further employment with a scheme employer, the pension will not be abated. The Fund resolved from 1 September 2006 not to abate pension on re-employment.

Extension of Time Period for Capitalisation of Added Years Contract [TP & TSch1 & L83(5)]

The administering authority may extend the time allowed to a member who has an added-years contract and who is made redundant to decide whether to pay a capital payment.

The Council will apply the prescribed three-month time limit, unless there are individual circumstances which need to be considered in deciding whether to grant an extension of the time limit.

Recovery of Unpaid Employee Contributions as Debt/From Benefits [A45]

The administering authority may recover any outstanding employee contributions as a debt or as a deduction from the benefits.

The Council will, where practical deduct any unpaid employee contributions from the benefits relating to the membership to which the unpaid contributions relate.

Consent for Early Payment and Waiving of Reduction [B30]

The administering authority may consent to the early payment of deferred benefits for a member aged between 55 and 60 where the former employer has ceased to be a scheme employer, it may also consent to waive the reduction on compassionate grounds.

Where a request is received, it will be considered individually and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justifiable.

Application for Early Payment of a Suspended Tier 3 Ill-Health Pension and Waiving Reduction [B30]

The administering authority may consent to the request for the early payment of pension for a member, who left with a tier-3 ill-health pension that is suspended and who now is aged between 55 and 60 where the former employer has ceased to be a scheme employer. The administering authority may also waive any reduction.

Where a request is received, it will be considered individually and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justifiable.

Request for Early Payment of Deferred Benefits on Ill-Health Grounds [B31]

The administering authority may decide to agree to a request from a deferred member for early payment of benefits on ill-health grounds where the former employer has ceased to exist.

The Council will obtain an opinion from an IRMP as to whether the member meets the criteria of permanent ill health and reduced likelihood of gainful employment.

Spouses' Pensions Arising Under the 1995 Regulations Payable for Life

The administering authority shall decide to pay spouse's pensions for life for pre-1 April 1998 retirees/pre-1 April 1998 deferreds who die on or after 1 April 1998, rather than ceasing the pension during any period of marriage or cohabitation.

The Council has deemed that any spouses' pension that comes into payment is payable for life. This does not apply to spouses' pensions that ceased prior to 1 April 1998.

Internal Audit

The Fund's Internal Audit Service is supplied by the administering authority (City of Wolverhampton Council).

The purpose of Internal Audit is to provide an independent and objective opinion on the risk management, control and governance and their effectiveness in achieving the Fund's agreed objectives.

Internal audit is central to the framework of assurance which should satisfy the Fund that any risks to its achievement of objectives and risks inherent in undertaking work have been properly identified and managed. Internal Audit is therefore able to indicate whether controls are adequately designed and effectively operated regardless of the source of assurance.

Based on the work undertaken during the year, the implementation of agreed recommendations by management and assurance made available to the Fund by other providers, Internal Audit's overall opinion was that they could provide reasonable assurance that the Fund had adequate and effective governance, risk management and internal controls throughout 2014/15.

The main areas of work undertaken during 2014/15 are detailed in the table:

Type of review	Area reviewed
Death grants	Systems review
Overall governance and risk management	Systems review
Early retirement costs	Systems review
Benefit calculations	Key financial system
Payroll	Key financial system
Reconciliation of contributions	Key financial system

Internal Audit act as the Fund's key contact for the Audit Commission's National Fraud Initiative and have co-ordinated the data upload in 2014. Internal Audit also undertakes financial appraisals on behalf of the Fund. Where an organisation is seeking admitted body status to the Fund, a financial appraisal is completed (the purpose of which is to establish whether the organisation will or will not be able to meet its financial obligations to the Fund). 17 appraisals were completed on behalf of the Fund during 2014/15.

Analysis of Investment Income During the Reporting Period

The Fund's investment income for the period ending 31 March 2014 is detailed in Note 15 of the annual report. The classification of income required by the updated guidance is not available in respect of the 2013/14 financial year; however, arrangements have been put in place to ensure that this will be available from 2014/15 onwards.

Participating Employers in the Fund

Scheduled Bodies

District Councils

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

Major Employers

Centro
The Chief Constable For West Midlands Police
Staffordshire and West Midlands Probation Trust (with effect from 1 June 2014 transferred to Tameside Pension Fund)
West Midlands Fire and Civil Defence Authority

Universities

Birmingham City University
Coventry University
University of Wolverhampton (The)

Colleges Of Further Education And Higher Education

Birmingham Metropolitan College
Bournville College of Further Education
Cadbury Sixth Form College
City College, Coventry
City of Wolverhampton College
Dudley College of Technology
Halesowen College
Henley College
Hereward College
Joseph Chamberlain College
King Edward VI College
Sandwell College
Solihull College
Solihull Sixth Form College (The)
South and City College Birmingham
University College Birmingham
Walsall College

Other Bodies

Ace Academy - Education Central MAT (The)
Acocks Green Primary Academy
Albert Bradbeer Junior School- Education Central MAT (The)
Alderbrook School
Aldersley - Academies Trust
Alston Primary School
Anand Free School – Nishkam School Trust
Aldridge School - A Science College
Arden Academy Trust
ARK Academies

Participating Employers in the Fund

ARK Kings Academy
ARK Rose Primary Academy
ARK Tindal Primary Academy
Arthur Terry Learning Partnership
Aston Manor Academy
Aston University Engineering Academy
Balsall Common Primary Academy
Balsall Parish Council
Bartley Green School
Baverstock Academy - The Leap Academy Trust
Bentley Heath Church of England Primary School
Berrybrook Academy- Perry Hall MAT
Billesley Primary - Academy - The Elliot Foundation Academies Trust
Birchills Academy - St Chads Academies Trust
Birmingham Museums Limited
Bishop Milner Catholic College - The St John Bosco CAT
Bishop Vesey's Grammar School
Bishop Walsh - John Paul II Multi-Academy
Black Country University Technical College
Blue Coat Church of England Academy Limited (The)
Blue Coat Church of England (Walsall) Trust
Birmingham Ormiston Academy
Bournville School and Sixth Form Centre - Fairfax MAT
Bramford Primary - Griffin Academy Trust
Bristnall Hall Academy - The Academy Transformation Trust
Broadway Academy
Brownmead Primary Academy
Castle Bromwich Parish Council
Caludon Castle School
Calthorpe Academy
Charles Coddy Walker Academy - Erudition Schools Trust
Chelmsley Wood Town Council
Cheswick Green Parish Council
Chilwell Croft Academy
Chivenor Academy - Griffin Schools Trust
City Road Academy - Birmingham City University Academy Trust
City of Wolverhampton Academy Trust
Collegiate Academy Trust (The)
Corngreaves Primary - United Learning Academies
Corpus Christi Catholic Primary- Pope John XX111 MAT
Cottesbrooke Infant and Nursery School
Coundon Court Academy
Coventry and Solihull Waste Disposal Company Limited (The)
Crestwood Academy
CTC Kingshurst Academy
Croft Primary Academy - The Elliot Foundation Trust
CUL Academy Trust Free School
Deanery Church of England School
Devonshire Infant Academy- Victoria Park MAT
Devonshire Junior Academy- Victoria Park MAT

Participating Employers in the Fund

Dorrington Academy Trust
Earls High School (The)
EBN Free School
Edgar Stammers Academy - Education Central MAT
Education Central Multi Academy Trust
Ellowes Hall Sports Academy
Erdington Hall Primary Academy
Ernsford Grange Community Academy - Sidney Stringer Academy Trust
Fairfax School (Academy)
Fairway School - Educational Central MAT
Field View Primary School- St. Martin's Federation
Finham Park School
Fordbridge Parish Council
Four Dwellings Primary Academy - Academies Enterprise Trust
Four Dwellings Secondary Academy - Academies Enterprise Trust
George Betts Academy - The Elliot Foundation Academies Trust
George Dixon Academy
The Giffard Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC
Golden Hillock Academy - Park View Educational Trust
Goldsmith Primary Academy - Windsor Academy Trust
Grace Academy
Great Barr Primary School
Greenholm Primary School
Green Meadow Academy
Greenwood Academy - Academies Enterprise Trust
Grestone Primary Academy- Academies Enterprise Trust
Hall Green Secondary School
Hamstead Hall Academy Trust
Handsworth Wood Girls' Academy
Harborne Academy
Hawkesley Church Primary Academy
Heartlands E-ACT Academy
Heart of England School
Heathlands Academy- Education Central MAT (The)
Heath Park Academy - Central Learning Partnership Trust
Hillcrest School and Sixth Form Centre
Hill Farm Academy - Castle Phoenix Trust
Hillstone Junior and Infants Academy
High Arcal School Academy Trust (The)
Hockley Heath Academy
Holy Cross - John Paul II Multi-Academy
Holy Rosary Catholic Primary- Pope John XX111 MAT
Holy Trinity C of E Primary Academy (Handsworth)
Holly Hall Academy
Holyhead School
James Brindley School
John Henry Newman Catholic College
Joseph Leckie Academy Trust
Jubilee Academy Mossley - ATT
Jubilee Park Academy Trust

Participating Employers in the Fund

King Edward VI Aston School (Academy)
King Edward VI Camp Hill School for Boys (Academy)
King Edward VI Camp Hill School for Girls (Academy)
King Edward VI Five Ways School (Academy)
King Edward VI Handsworth School (Academy)
King Edward VI Sheldon Heath Academy
Kings Norton Girl's School and Language College
Kings Rise Academy - The Elliot Foundation Academies Trust
Kingshurst Parish Council
Kingswinford School and Science College (The)
Knowle C of E Primary Academy
Langley School
Lea Forest Primary Academy - Academies Enterprise Trust
Leigh Primary Academy - Leigh Trust
Light Hall School
Lode Heath School
Lordswood Boys School - Lordswood Academies Trust
Lordswood Girls School and Sixth Form Centre - Lordswood Acadamies Trust
Mansfield Green E-ACT Academy
Marston Green Infant Academy
Matrix Academy Trust
Meriden Parish Council
Merritts Brook E-ACT Primary Academy
Mesty Croft Academy
Moor Green Primary Academy - HTI MAT
Montgomery Primary Academy - Academies Enterprise Trust
Moseley Park School - Central Learning Partnership Trust
Nansen Primary School - Park View Educational Trust
Nechells Primary E-ACT Academy
Ninestiles Academy Trust
Nishkam School Trust
North Birmingham E-ACT Academy
Northern House School Academy Trust
Northwood Park Primary Academy
Oaklands Primary - Ninestiles Academy Trust
Oasis Community Learning - Foundry Primary
Oasis Community Learning - Hobmoor Primary
Oasis Community Learning - Matthew Boulton
Oasis Community Learning - Short Heath Primary
Oasis Community Learning - Blakenhale Infants
Oasis Community Learning - Blakenhale Junior
Oasis Community Learning - Woodview School
Ocker Hill Academy Trust
Oldbury Academy
Oldknow Academy
Orchards Primary Academy - Education Central MAT (The)
Ormiston Academies Trust
Ormiston Forge Academy
Ormiston George Salter Academy
Ormiston Sandwell Community Academy

Participating Employers in the Fund

Our Lady & St. Chad's Catholic Sports College- Pope John XX111 MAT
Our Lady of Fatima Catholic Primary School- St. Nicholas Owen Catholic MAC
Park Hall Academy
Park Hall Infant Academy
Park Hall Junior Academy
Park View Educational Trust
Parkfields Academies Trust
Pegasus Academy - Ninestiles Academy Trust
Percy Shurmer Primary School
Perry Beeches - The Academy
Perry Hall Primary School
Plantsbrook School
Police and Crime Commissioner West Midlands
President Kennedy School
Q3 Academy
Queen Mary's Grammar School (Walsall)
Queen Mary's High School (Walsall)
Radford Primary Academy - Sidney Stringer Academy Trust
Reaside Academy - Education Central MAT
Reach Free School
Reedswood E-ACT Primary Academy
Redhill School
Ridgewood Academy
Rivers Primary Academy - Windsor Academy Trust
Riverbank Academy- Sidney Stringer Academy Trust
Robin Hood Academy
Rookery School
Rough Hays Primary - Elliot Foundation Trust
RSA Academy
Ryder Hayes Academy Trust
Saltley Academy
Sandwell Academy
Seva Free School - Sevak Educational Trust
Shelfield Community Academy
Shenley E-ACT Academy
Shireland Hall Academy - The Elliot Foundation Academies Trust
Shire Oak Academy Trust
Shirestone Community Academy - The Elliot Foundation Academies Trust
Sidney Stringer Academy Trust
Silvertrees Academy Trust
Smestow School - Education Central MAT
Smith's Wood Parish Council
Smith's Wood Primary School
Solihull Community Housing Limited
SS Mary and John's Catholic Primary Academy - Bishop Cleary Catholic MAC
St Bartholomew C of E Academy
St Chad's Academy - The St John Bosco CAT
St Clement's C of E Academy Nechells
St Edmund's Catholic Academy - Bishop Cleary Catholic MAC
St George's Academy C of E Academy

Participating Employers in the Fund

St George's Academy Newtown
St John's C of E Primary School
St John's C of E Primary Academy- Diocese Coventry MAT
St John's C of E Primary Academy- St. Chad's Academy Trust
St John's and St Peters C of E Academy
St Joseph's - John Paul II Multi-Academy
St Joseph's Academy - The St John Bosco CAT
St Josephs' Catholic Primary School- St Nicholas Owen Catholic MAC
St Jude's Academy - The Wulfrun Academies Trust
St Laurence's Primary Academy - Diocese of Coventry MAT
St Martin's C of E Primary School- St. Martin's Federation
St Mary's Catholic Primary School- St Nicholas Owen Catholic MAC
St Mary's Catholic Primary- Pope John XX111 MAT
St Mary's C of E Junior & Infants School
St Michael's Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC
St Michael's C of E Primary School Bartley Green
St Michael's C of E Primary Academy Handsworth
St Nicholas' - John Paul II Multi-Academy
St Patrick's Church of England Primary Academy
St Paul's C of E Primary Academy
St Peter's Church of England Academy Trust
St Teresa's Catholic Primary Academy - Bishop Cleary Catholic MAC
Streetly Academy (The)
Stretton Primary Academy - Diocese of Coventry MAT
Sutton Coldfield Grammar School for Girls Academy Trust
Tame Valley Academy - Education Central MAT
Mirus Academy - Walsall College Academies Trust
The University Training School
Three Spires Academy - RNIB Specialist Learning Trust
Tile Hill Wood School and Language College
Timberley Academy Trust
Timbertree Primary - United Learning Academies
Tiverton Academy - Elliot Foundation Trust
Town Junior School- Plantsbrook Academy Trust
Tudor Grange Academy Solihull Trust
Tudor Grange Primary Academy
Twickenham Primary Academy
Valuation Tribunal Service
Victoria Park Primary Academy
Walsall City Academy Trust Limited
Walsall Studio School - The Vine Trust
Warren Farm Primary School
Washwood Heath Academy
Waverley Studio School
Wednesbury Oak Primary Academy
Wednesfield High School- Education Central MAT (The)
West Walsall E-ACT Academy
Westwood Academy
Willenhall E-ACT Academy
Whitley Academy

Participating Employers in the Fund

Wilson Stuart School
Windsor High School and Sixth Form
WMG Academy for Young Engineers
Woden Primary - Central Learning Partnership Trust
Wodensborough Academy - Ormiston Academies Trust
Wolverhampton Girls High School
Wolverhampton Homes
Woodhouse Primary Academy - Education Central MAT
Wood Green Academy
Woodlands Academy
Woodlands Academy of Learning
Wyndcliffe Primary School (Leigh Trust)
Yardleys School
Yarnfield Academy - Ninestiles Academy Trust

Other Bodies With No Active Members

Bickenhill Parish Council
Sandwell Homes Limited

Community of Interest Admission Bodies - Admitted Bodies

With Active Members

4 Towers TMO Limited
Acivico (Building Consultancy)
Acivico (Design Construction and Facilities Management)
Action Indoor Sports Birmingham CIC Limited
ACUA Limited - terminated 31 July 2014
Age Concern Birmingham
Age Concern Birmingham (VSOP)
BID
Black Country Consortium Limited
Black Country Museum Trust Limited (The)
Black Country Partnership NHS Foundation Trust
Bloomsbury Local Management Organisation Limited
BME United Limited
Broadening Choices for Older People
Brownhills Community Association Limited
Bushbury Hill Estate Management Board Limited
Chuckery Tenant Management Organisation Limited
Coventry Law Centre Limited
Coventry Sports Trust Limited
Culture Coventry
Delves East Estate Management Limited
Dovecotes TMO
Edith Cadbury Nursery School - terminated 31 August 2014
Family Care Trust
Friendship Care and Housing Limited
Home Start Northfield
Home Start Stockland Green/Erdington
Home Start Walsall
Kingswood Trust

Participating Employers in the Fund

Leamore Residents Association Limited
Lieutenancy Services (West Midlands)Limited
Life Education Centres West Midlands
Light House Media Centre
Manor Farm Community Association
Marketing Birmingham Limited
Midland Heart Ltd
Millennium Point Trust
Murray Hall Community Trust Limited
Murray Hall Community Trust (Oldbury)
Murray Hall Community Trust (Rowley)
Murray Hall Community Trust (Wednesbury)
Mytime Active
New Heritage Regeneration Ltd
New Park Village Tenant Management Organisation
Northern Housing Consortium Limited
Optima Community Association
Palfrey Community Association
Penderels Trust Limited (The)
Pool Hayes Community Association – terminated 30 April 2014
Rightstepcareers Ltd (formally CSW Partnership Limited)
Riverside Housing Association Limited (formerly Riverside Group Limited)
S4E Limited
Sandbank Tenant Management Organisation Limited
Sandwell Community Caring Trust (The)
Sandwell Community Caring Trust (The)(Sandwell Care Homes)
Sandwell Inspired Partnership Services
Sandwell Leisure Trust
Sickle Cell and Thalassaemia Support Project (Wolverhampton)
Solihull Care Limited
St Columba's Day Care Centre
Steps to Work (Walsall) Limited
Titan Partnership
Voyage Care Limited
Walsall Housing Group Limited
WATMOS Community Homes
Whitefriars Housing Group Limited
Wildside Activity Centre
Wolverhampton Grammar School
Wolverhampton Voluntary Sector Council

Without Active Members
Adoption Support
Age Concern Wolverhampton
Aston University
All Saints Haque Centre
Aquarius Action Projects
Asian Welfare Centre
Asian Women's Adhikar Association (AWAAZ)
Belgrade Theatre Trust (Coventry) Limited

Participating Employers in the Fund

Bilston and Ettingshall SureStart
Birmingham and Solihull Connexions Services
Birmingham and Solihull Learning Exchange (The)
Birmingham Heartlands Development Corporation
Black Business in Birmingham
Black Country Connexions
Black Country Museum Development Trust (The)
Burrowes Street Tenant Management Organisations Limited
BXL
Cannon Hill Trust (now Midlands Arts Council)
Cerebral Palsy Midlands
Community Justice National Training Organisation
Coventry Heritage and Arts Trust
Coventry Voluntary Service Council
CV One Limited
Druids Heath TMO
Dudley Zoo Development Trust
East Birmingham Family Service Unit
Heath Town Estate Management Board
Heart of England Care
Job Change Limited
Leisure and Community Partnership Limited
Metropolitan Authorities Recruitment Agency (METRA)
Moseley and District Churches Housing Association Limited
Museum of British Road Transport Trust (Coventry) Limited
National Urban Forestry Unit
National Windows (Homes Improvements) Limited
Newman College
Priory Family Centre CIC Limited
Relate
Roman Way Estate CIC
Sandwell Arts Trust
Sandwell Regeneration Company Limited
Selly Oak Nursery
Smethwick Asra Limited
Solihull Care Trust
Solihull Community Caring Trust
South Birmingham Family Services Unit
South Warwickshire Tourism Limited
Springfield/Horseshoe Housing Management Co-operative Ltd
St Basil's Centre
Sunderland ARC Limited
The Chris Laws Day Care Centre for Older People
Three Tuns Neighbourhood Project
TSB Bank plc (formerly Birmingham Municipal Bank)
University of Birmingham
University of Warwick
Walsall Enterprise Agency Limited
Walsall Regeneration Company Limited
Wednesbury Action Zone

Participating Employers in the Fund

West Bromwich Afro-Caribbean Resource Centre
West Midlands Councils (formerly West Midlands Leaders Board)
West Midlands (West) Valuation Tribunal
West Midlands Examinations Board (The)
West Midlands Local Authorities Employers' Organisation
West Midlands Transport Information Services Limited
Wolverhampton Community Safety Partnership
Wolverhampton Development Corporation Limited
Wolverhampton Family Information Service Limited
Wolverhampton Network Consortium
Wolverhampton Race Equality Council

Transferee Admission Bodies

With Active Members

ABM Catering Limited (Aldermoor School)
ABM Catering Limited (Allesley)
ABM Catering Limited (Bordesley Green School)
ABM Catering Limited (Cannon Park)
Action for Children (Smethwick)
Action for Children (West Bromwich)
Agilisys Limited (Rowley/Smethwick)
Agilisys Limited (OCOS/WODO/Tipton)
Alliance in Partnership Limited(Camp Hill)
Alliance in Partnership Limited(Ernesford Grange)
Alliance in Partnership Limited(President Kennedy)
Alliance in Partnership Limited(Stoke Park)
Alliance in Partnership Limited- Unity Cluster
Amey Highways Limited
Amey LG Limited
Aspen Services Ltd (Gosford Park)
APCOA Parking (UK) Limited (Wolverhampton)
Aspens Services Limited (Aldridge School)
Aspens Services Limited (Courthouse Green)
Aspens Services Limited (Pinfold Street Primary)
Aspens Services Limited (Rough Hays School)
Balfour Beatty Living Places (Coventry) (previously Balfour Beatty Workplace Limited - Coventry)
Barnardos (Sandwell)
BAM Construct UK Limited
Bespoke Cleaning Services Limited
Bespoke Cleaning Services Limited (Westwood Academy)
Black Country Housing Group (New Bradley Hall)
Capita IT Services Limited
Catering Academy Limited (John Gulson)
Catering Academy Limited (Synergy Schools)
Catering Academy Limited (Walsall)
Call First Cleaning
Carillion (Highfield & Pennfields)
Churchill Contract Catering Limited (Calthorpe School) (formally Redcliffe Catering Limited (Calthorpe School))
Churchill Contract Services (Cottesbrook School)
Civica UK Limited (ARK Schools)

Participating Employers in the Fund

Cofely FM Limited (Broadway School) (formally Lend Lease FM Limited (Broadway School))
Cofely FM Limited (George Dixon School) (formally Lend Lease FM (EMEA) Limited (George Dixon School))
Cofely FM Limited (HM and Stockland Green School) (formally Lend Lease FM (EMEA) Limited (HM and Stockland Green School))
Cofely FM Limited (International School) (formally Lend Lease FM (EMEA) Limited (International School))
Cofely FM Limited (Moseley School) (formally Lend Lease FM (EMEA) Limited (Moseley School))
Cofely FM Limited (Park View School) (formally Lend Lease FM (EMEA) Limited (Park View School))
Cofely FM Limited (Saltley School) (formally Lend Lease FM (EMEA) Limited (Saltley School))
Cofely FM Limited (Sheldon Heath School)
Cofely FM Limited (Waverley School)
Cofely Work Place Limited (formally Balfour Beatty Workplace Limited Birmingham)
Creative Support Limited
DRB Contract Cleaning Limited (Yew Tree Primary)
DRB Contract Cleaning Limited (Wychall Primary School)
Enterprise Managed Services Limited (Solihull)
Enterprise Managed Services Limited(Wolverhampton)
Enterprise AOL Managed Services Limited(Telford/Wrekin)
Elite Cleaning and Environmental Services
European Electronique Limited (Tile Hill School)
Galliford (UK) Limited
Harrison Catering Services Limited
Housing 21
Interserve Catering Services Limited (formally Initial Catering Services Limited (Rowley))
Interserve Catering Services Limited (formally Initial Catering Services Limited (Smethwick))
Integral UK Limited
Integral UK Limited (Queensbridge School)
Interserve FM Limited (Rowley Campus)
Interserve FM Limited (OCOS/Wodo/Tipton)
KCLS Limited (Coventry)
KGB Cleaning & Support Services Limited (Bishop Ulathorne)
KGB Cleaning and Support Services Limited (Alderbrook) – terminated 6 August 2014
KGB Cleaning and Support Services Ltd (Lyndon)
Lawrence Cleaning Limited (Parkfields)
Lawrence Cleaning Limited (St Stephens)
Leisure Living Limited
Lend Lease Construction (EMEA) Limited (Four Dwellings School)
Lend Lease Construction (EMEA) Limited (E-ACT)
Lend Lease Construction (EMEA) Limited (George Dixon)
Lend Lease Construction (EMEA) Limited (Moseley School)
Lend Lease Construction (EMEA) Limited (Park View School)
Lend Lease Construction (EMEA) Limited (Saltley School)
Lend Lease Construction (EMEA) Limited (Stockland Green Broadway School)
Lend Lease Construction (EMEA) Limited (Waverley School)
Mears Group plc
Mears Limited
Mitie PFI Limited
Mouchel Limited
NSL Limited (Birmingham) – terminated 31 January 2015
NSL Limited (Solihull)
Pell Frishman Consultants Limited
Pendergate Limited

Participating Employers in the Fund

Places For People Leisure Limited (Wolverhampton)
Places For People Leisure Limited (Harborne Pool)
Premier Security Services Limited
Premier Support Services Limited (Alumwell Junior School)
Premier Support Services Limited (Alumwell Infant School)
Premier Support Services Limited (St Edmund Campion School)
Premier Support Services Limited (Hodge Hill School)
Premier Support Services Limited (Holy Trinity RC)
Quadron Services Limited
Regent Office Care Limited (COWAT) – terminated 31 July 2014
Regent Office Care Limited (Henley College)
Regent Office Care Limited (Willenhall) – terminated 31 December 2014
Serco Limited (Sandwell)
Service Birmingham Limited
Sodexo Limited
Tarmac Limited
Taylor Shaw Limited (Great Barr Birmingham)
Taylor Shaw Limited (Great Barr School) – terminated 31 August 2014
Taylor Shaw Limited (Colton Hills)
Taylor Shaw Limited (COWAT) – terminated 31 August 2014
Urban Enterprises (Bournville) Limited
Willmott Dixon Partnership Limited (North Contract)
Willmott Dixon Partnership Limited (South Contract)

Without Active Members

Accord Operations (Birmingham)
Alliance in Partnership Limited (Aston)
APCOA Parking (UK) Limited (Solihull)
APCOA Parking (UK) Limited
AWG Facilities Services Limited
Birmingham Accord Limited
Bovis Lend Lease Management Services
British Telecom PLC
Central Parking Systems
Enterprise (AOL) Limited (Shrewsbury)
Enterprise (AOL) Limited (Shropshire)
Forest Community Association
GF Tomlinson Birmingham Limited
Icare GB Limited
Interserve Construction Limited (Smethwick Campus)
Interserve Construction Limited (OCOS/WODO/Tipton Schools)
Interserve Construction Limited (Rowley Campus)
Interserve Facilities Management Ltd (Smethwick)
JDM Accord Limited (Shrewsbury & Atcham)
JDM Accord Limited (Shropshire)
JDM Accord Limited (Tamworth)
JDM Accord Limited (Telford & Wrekin)
Kite Food Services Limited
Lawrence Cleaning Limited (Woodthorne School)
Liberata UK Limited

Participating Employers in the Fund

Methodist Homes for the Aged
Mitie Cleaning (Midlands) Limited - Birmingham City Council
Mitie Managed Services (S&SW) Limited
Mitie Managed Services (S&SW) Limited - Coventry
Mitie Cleaning (Midlands) Limited - Wednesfield
Mitie Property Services (UK) Limited
MLA West Midlands
Morrison Facilities Services Limited
Premier Support Services Limited (Streetly School)
Redcliffe Catering Limited (Bordesley Green Girls School)
Redcliffe Catering Limited (Camp Hill School)
Regent Office Care Limited (Hereward)
Regent Office Care Limited (City College, Coventry)
Regent Office Care Limited (Whitefriars)
Research Machines plc
RM Education plc
Revenue Management Services
Select Windows (Homes Improvements) Limited
Serco Limited (Stoke)
Serco Limited (Walsall)
Service Team Limited
Strand Limited
Superclean Services
Target Excel plc (Magistrates Courts)
Target Excel plc (Solihull MBC)
Target Excel plc (Walsall MBC)
Taylor Shaw Limited (St Albans)
Taylor Shaw (Hodge Hill)
Technology Innovation Centre
Temple Security Limited
Thomas Vale Construction plc
Veolia Environmental Serviced Cleanaway (UK) Limited
Vertex Data Science Limited
Wates Construction Limited (Birmingham)
West Midlands E-Learning Company

Other Major Employers Who Have Participated in the Fund
Birmingham International Airport plc
Department of Transport
Department of Health and Social Security
Severn Trent Water Authority
West Midlands Magistrates Courts Committee

Agenda Item No: **13**

Wolverhampton City Council

Pensions Committee

23 September 2015

Report title	Accounting Policies 2015/16	
Originating service	Pension Services	
Accountable employee(s)	David Kane Tel Email	Head of Finance 01902 554423 david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 geik.drever@wolverhampton.gov.uk

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Recommendation for decision:

The Committee is recommended to endorse the Funds' accounting policies for the 2015/16 financial year.

1.0 Purpose

1.1 The purpose of this report is to seek the Committee’s endorsement of the accounting policies to be used in preparing the Funds’ accounts for the 2015/16 financial year.

2.0 Background

2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce an annual statement of accounts. In preparing these, funds must have regard to proper practice, and to any guidance which has the effective standing of ‘statutory guidance’. That guidance is ‘The Code of Practice on Local Authority Accounting in the United Kingdom’ (‘the Code’), which is prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA), and updated annually.

2.2 CIPFA has issued the 2015/16 Code, and there are no significant changes from the 2014/15 Code that are expected to impact on the Funds’ accounts.

2.3 As a result, the Funds are now in a position to determine and approve their accounting policies for 2015/16. As a matter of good practice, these are being presented for Committee’s approval well in advance of the draft accounts themselves (which will be presented in June 2016), and are attached at Appendix 1 (West Midlands Pension Fund) and 2 (West Midlands ITA Pension Fund). The two policies are very similar, but vary slightly to reflect the differing composition of investment assets.

3.0 Financial implications

3.1 The accounting policies are a fundamental part of the Funds’ financial governance frameworks. As there have been no changes to the policies from 2014/15, there are no financial implications arising from this report.

4.0 Legal implications

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

5.0 Equalities implications

5.1 This report has no equalities implications.

6.0 Environmental implications

6.1 This report has no environmental implications.

7.0 Human resources implications

7.1 The report has no human resources implications.

8.0 Corporate landlord implications

8.1 This report has no corporate landlord implications.

9.0 Appendices

9.1 Appendix 1
WMPF – Statement of Accounting Policies 2015/16

9.2 Appendix 2
WMITA – Statement of Accounting Policies 2015/16

West Midlands Pension Fund - Statement of Accounting Policies 2015/16

a) Fund Account

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

b) Contribution Income

Contributions receivable have been included in the accounts on the accruals basis at the rates recommended by the Fund's actuary for basic contributions. Additional contributions as notified by employers for the period have also been included. Past service deficit contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset, with amounts due after the following year classed as long-term financial assets.

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

c) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who had either joined or left the scheme as at 31 March 2016, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis, and are reported within transfers in.

d) Investment Income

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

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

iii) Distributions from Pooled Funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property-Related Income
Property-related income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Changes in the Value of Investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

f) Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2016. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

g) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2016.

h) Valuation of Investments

i) Quoted Securities
Securities have been valued at the bid-market price ruling on 31 March 2016 where a quotation was available on a recognised stock exchange or unlisted securities market.

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

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

iv) Freehold and Leasehold Properties
These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, chartered surveyors as at 31 March 2016. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties were valued by Savills Plc, agricultural valuers, at the same date.

v) Foreign Currencies
Investments held in foreign currencies have been valued as set out in paragraph g) above and translated at exchange rates ruling at 31 March 2016.

vi) Movement in the net market value of investments
Any gains or losses arising on translation of investments into sterling are accounted for as a change in the market value of investments.

i) Cash and Cash Equivalents

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

j) Financial Liabilities

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

k) Management Expenses

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administrative expenses are accounted for on an accruals basis. The costs of Fund officers are recharged to the Fund, along with all other costs incurred directly on Fund activities, and an apportionment for corporate support services provided by the council.

All investment management expenses are accounted for on an accruals basis. External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody, and as such will fluctuate as the valuations change. In addition, performance-related fees are negotiated with a number of managers and the amounts of such fees are provided in a note to the accounts.

Where a management fee notification has not been received by the time of preparing these accounts, an estimate based upon the market value of their mandate is used for inclusion in the Fund Account.

The cost of external investment advice is included in investment management expenses, as is the cost of the Fund's in-house investment management team.

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see note to the accounts).

m) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in acccordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (see note to the accounts).

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West Midlands ITA Pension Fund – Statement of Accounting Policies 2015/16

Fund Account – Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

b) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.

c) Investment Income

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

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

iii) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

iv) Benefits underwritten
The annuity purchased (see note to the accounts) is treated in the accounts as an investment. Any income arising from this insurance contract to cover benefits underwritten is recognised in the Fund as investment income on an accruals basis.

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

i) Value added tax
The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

ii) Income tax
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted

f) Administration Expenses

All administration expenses are accounted for gross on an accruals basis. The pension administration recharge from the City of Wolverhampton Council is calculated on a historical cost basis based on the proportion of time spent by the council's in-house pensions administration team on the Fund's activities.

g) Investment Management Expenses

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

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Each investment manager receives a fee for their service based on the market value of the assets they manage on the Fund's behalf. All managers have a specific target return against a benchmark.

The costs of the in-house Fund management team are recharged to the Fund by the City of Wolverhampton Council on the same basis as the administration expenses recharge.

Net Assets Statement

h) Financial Assets

The Fund's financial assets include debtors (mainly contributions due from members and employers), cash and cash equivalents, investment assets and bulk annuity insurance buy-in. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

Debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable, it is written off to the Fund account in the period in which it is recognised.

Investment assets are recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Subsequent to initial recognition investment assets and the
insurance buy-in are measured at fair value with any gains or losses arising from changes in the fair value of the asset recognised by the Fund.
The values of investments and the insurance buy-in as shown in the net assets statement have been determined as follows:

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published. In the case of pooled investment vehicles that are accumulation funds, change in market value is based on the difference between holding value at the beginning of the year or purchase price to the year end. Income that is reinvested in the Fund is net of applicable withholding tax, and is treated as a purchase, with changes in the market value of the investment based on any increment or reduction from the date of purchase.

Diversified growth funds invest in a variety of liquid assets. The value of the underlying assets are derived from several sources including the use of quoted market prices and valuation techniques used by external managers based on significantly observable market data.

The Fund's actuary provides a valuation of the bulk annuity insurance buy-in based on the original value 'rolled forward' subject to actuarial assumptions being applied. On a triennial basis, the value of the buy-in will be revised based upon the detailed outcomes of the actuarial valuation exercise, with the value being 'rolled forward' in the intervening years.

The value of the buy-in is derived by mapping projected cashflows to a yield curve (based on market returns on UK government gilt stocks and other instruments of varying durations) in order to determine a market consistent gilt yield for the profile and duration of the buy-in beneficiaries, alongside other demographic assumptions consistent with the 2013 valuation of the Fund.

i) Financial Liabilities

Financial liabilities include amounts due for benefits and administration/investment expenses. These creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Fund account in the period in which it is recognised.

j) Foreign Currency Transactions

The Fund has no financial assets denominated in foreign currencies. Equities held overseas are valued in sterling at source.

k) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.
As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement.

l) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company and Equitable Life as its AVC providers (new AVCs only with Prudential Assurance Company). AVCs collected are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section. 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (see note to the accounts).

Agenda Item No: **14**

Wolverhampton City Council

Pensions Committee

23 September 2015

Report title	Service Plan Monitoring 2015/16 – Quarter Two and Quarterly Accounts June 2015	
Originating service	Pension Services	
Accountable employee(s)	David Kane Tel Email	Head of Finance 01902 554423 david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 geik.drever@wolverhampton.gov.uk

Recommendation(s) for noting:

The Committee is recommended to note:

1. Performance against the Fund's key performance indicators as at the end of the second quarter;

2. The forecast outturn against operating budgets as at the end of the second quarter, which is an under spend of £1.9 million;

3. The quarterly accounts for the period ending 30 June 2015, which show that the value of the Fund at this date was £11.3 billion, a decrease of £179.7 million from 31 March 2015.

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 second quarter.

1.2 The KPIs and operating budgets were approved by the Committee on 18 March 2015 as part of the Service Plan 2015-2020, a full copy of which can be found on the Fund's website: 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. Activities against the plan continue in line with objectives. A summary of performance against KPIs is included in Appendix 2.

2.2 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 later in the year.

3.0 Forecast Outturn Against Operating Budget 2015/16

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

Budget Heading	Approved Budget 2015/16 £000	Forecast 2015/16 £000	Forecast Variance £000
Employees	4,797	4,434	(363)
Premises	328	293	(35)
Transport	60	36	(24)
Communications and Computing	604	455	(149)
Investment Management and Advice*	9,559	8,207	(1,352)
Professional Fees	1,530	1,511	(19)
Other Supplies and Services	487	445	(42)
Support Services	458	500	42
Service development	350	350	-
Total Expenditure	**18,173**	**16,231**	**(1,942)**
Miscellaneous Income	(5)	(5)	-
Net Expenditure	**18,168**	**16,226**	**(1,942)**

* Note: this line includes invoiced external fees only

3.2 Forecasts have been made 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 on staffing budgets (£318,000) is due to posts being vacant, or in the process of being recruited to, during the year to date. Recruitment has been difficult, in part due to salary scales. The Fund is looking to develop its own staff in-house, including through the recruitment of trainees, and is aiming to become more self-sufficient over time. In addition, the structure of the Pensions team is currently being reviewed, with a view to increasing the overall number of posts to address the increasing demands on the Fund. A report will be provided to the committee in December providing further details.

3.4 There are forecast savings across a range of other headings, reflecting the inclusion of up-to-date information and forecasts.

3.5 As at the end of the second quarter, investment management fees are forecast to be £1.4 million under budget, reflecting the on-going work to streamline portfolio management arrangements. However, since these are heavily influenced by market movements and investment performance, this is particularly subject to change during the remainder of the year. Total investment management fees for the year, including those that are not invoiced, are estimated to be £77.0 million. In addition to this, internal investment management costs are forecast to be £2.2 million, giving rise to a total cost of investments of £79.2 million.

3.6 Cost-per-member is a critical measure for the Fund of its cost-effectiveness. The following table sets out forecast cost-per-member compared to budget, using the three standard headings specified by CIPFA. These figures are stated for West Midlands Pension Fund only, reflecting the £150,000 recharge to the ITA Fund. The forecast cost-per-member is lower than budgeted for each of the three headings.

	2015/16 Budget	**2015/16 Forecast**
Total Administration Costs (£000)	3,621	3,380
Administration Cost per Member (£)	12.83	11.99
Total Oversight and Governance Costs (£000)	2,422	2,296
Oversight and Governance Cost per Member (£)	8.58	8.14
Total Administration, Oversight and Governance Cost per Member (£)	**21.41**	**20.13**
Total Investment Management Costs (£000)	N/A	79,242
Investment Management Cost per Member (£)	N/A	281.10
Investment Management Cost as a Percentage of Investment Assets		**0.66%**

3.7 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 Quarterly Accounts

4.1 For the first time, the Fund has prepared a quarterly Fund Account and Net Assets Statement, for the period ending 30 June 2015 (Appendix 3).

4.2 The Net Assets Statement provides a value for the Fund at 30 June 2015 of £11.3 billion. This is a decrease of £179.7 million from the 31 March 2015 value.

4.3 These quarterly accounts have been prepared using a number of key assumptions, which are set out below:
- Past Service Deficit Contributions for the year have been recognised in full in the first quarter (meaning that the contributions income shown in the Fund Account is significantly more than one quarter of the total amount that will be due for the year);
- Management expenses have been calculated on an accruals basis, being equal to one quarter of the forecast net cost for the year.
- Investment income has been calculated based on income due for the period.

4.4 The main reason for the reduction in the value of the Fund during the quarter is the general fall in markets, the fall in the value of investment assets over the period being £319.0 million.

4.5 It should be noted that the figure for current liabilities at 30 June 2015 is much higher than the 31 March 2015 equivalent: this is almost entirely due to early payment of contributions, recognised as receipts in advance. Of the £99.8 million current liabilities, £76.5 million is receipts in advance; of this, £62.0 million is represented by four councils. Over the remainder of the financial year, this will unwind and current liabilities will reduce.

4.6 Quarterly accounts for the ITA Fund will also be made available from the December 2015 committee onwards.

5.0 Financial implications

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

6.0 Legal implications

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

7.0 Equalities implications

7.1 This report has no equalities implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 The report has no human resources implications.

10.0 Corporate landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of background papers

- Service Plan 2015-20, Report to Pensions Committee, 18 March 2015

12.0 Appendices

12.1 Appendix 1: WMPF Service plan 2015-20

12.2 Appendix 2: KPI monitoring

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WMPF Service Plan 2015-20
Priorities and Implementation Targets

Activity	Benchmark Measurement	Target	Frequency	Comments
Quality procedures and practices				
a) Maintain Quality Accreditations	Investors in People (IIP), Investors in Excellence (IIE), Customer Service Excellence (CSE), CIPFA mark of governance and shortlisting in industry awards	Reaccreditation/shortlisting for awards	Annually	IIP silver award granted on first attempt. The standard is changing over the next 6months and we are in the process of training officers to ensure we understand the new requirements before full assessment next March. The Fund was successful in achieving the CIPFA mark of governance excellence having undertaken in-house assessment during April.. The Fund has been shortlisted for 7 awards out of 11 applications made, having won 1, we are waiting confirmation of the other 4.
b) Respond to best practice and legislative change	Through updates to SMT Legislative requirement	Improvements to be identified and reported on regularly Compliance with legislation	Quarterly	All changes are monitored through email updates and alerts and are reviewed and implemented in an efficient and timely manner.
c) Data quality	Performance against key indicators	Data is accurate and updated on a timely basis	Continuous with quarterly reports	Bulk data validation consistently maintained and reviewed. A number of learnings are coming out of the Annual Return process. The Fund will continue to develop its on-going engagement with employers on data issues and electronic exchange, including consideration of a potential requirement for more frequent returns. Going forward, it is anticipated that there will be an annual process for reviewing data on the back of the Annual Return/Annual Benefit Statement exercise. The Compliance and Risk Manager has undertaken a full review of the Fund's Information Governance management implementing all processes from the City Council and leading an information governance working party to assess the process of information handling in the fund.

Activity	Benchmark Measurement	Target	Frequency	Comments
Drive progress through performance improvement				
a) Improve data quality standards to meet regulatory requirements	Review of performance against specific targets set by the regulator in respect of completeness and accuracy of data	Achieve targets set by the regulator	Ongoing/annual	Fund data is regularly assessed relative to the "common data" requirements set by the Pensions Regulator. An assessment of the "conditional data" the Fund is targeting is also underway. Both the regulatory requirements and employer performance following the 2014 data cleansing review and 2015 Annual Return exercise will be reviewed, and a Data Improvement Plan implemented, later this year. The Fund is looking to more closely monitor employer performance against the administration strategy and impose charges, in line with this, for poor performance. The Fund will also pass on costs to employers for additional Annual Benefit Statement work.
	Outcome of reviews by the regulator and internal audit	Positive reports by review bodies	Ongoing/annual	Reviews to be considered as and when appropriate.
b) Develop cross-cutting key performance indicators focused on service priorities	Performance against new key performance indicators (KPIs)	The aim is for the pension administration service to operate at 85% (or better) in accordance with the standards set	Monthly	Revised KPIs have been implemented with effect from January 2015 and these have been monitored and amended where necessary. Emphasis will be given to ensuring that the focus remains on these KPIs at the same time as managing the overall workload. 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. 2014 changes are still restricting some processes but, in the main, this is now due to limited internal resource to test and implement system developments.

Activity	Benchmark Measurement	Target	Frequency	Comments
Develop and implement customer engagement strategies				
a) Develop, review and consult upon and implement engagement strategies	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and Quarterly reporting	The Fund has formalised its customer engagement strategy and this was presented to pension committee in June 2015. 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) Hold AGM and mid-year reviews annually for employers	Events held in summer and winter each year and are favourably received	Two events per year with 90% of respondentsto feedback stating event was either good or excellent	Report to SMT following event	The Fund's mid year review 2015 was a huge success with positive feedback on all aspects, including the new venue. 93% of attendees rated the event as good/excellent. We are currently consulting with employers on the format of the MYR and AGM going forward as to whether 2 events are still the preferred option.
c) Develop communications with stakeholders' needs in mind	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and Quarterly reporting	In addition to b) the Fund hosts an Employer Peer Group and regularly provides employer briefing notes to representatives. The Pensions Board is now up and running, and will be a useful source of new ideas and assisting with communication.
d) Implement and review customer journey mapping (CJM) programme	CJM programme to be implemented with project plan targeting customer segmentation	Processes reviewed by customers on a quarterly basis	Quarterly	The CJM program is well underway having held a focus group on the new benefit statements. Two further groups are planned for later this year, to focus test the website and the pensioner newsletter with the hope of also holding a group on annual returns.

Activity	Benchmark Measurement	Target	Frequency	Comments
Management of risk strategies				
a) Regular risk management reviews	Annual risk review	To have an action plan for the most significant risks	Annual/quarterly monitoring	The risk register has recently undergone a full review not only in risks noted but also in the way the register is created. The risk register will run as an active document with the compliance testing working alongside those risks highlighted as the top ten. The annual risk workshop was held with members of both Pensions Committee and Pensions Board in July, and the risk register was updated to reflect members' views.
b) Review of major changes and new activities of business	Review/approval from Pensions Committee	All Fund risks are adequately managed	Ongoing/quarterly reviews of risk register	The risk register underwent a full review through the previous quarter to be approved by pension committee in June 2015. It is reviewed on a quarterly basis by the management team to ensure all risks are updated in line with their impact and probability.
c) Develop and maintain risk management approach in order to give annual assurance statement	Review/approval from Pensions Committee	All Fund risks are adequately managed	Annual review	The risk management of the Fund is constantly being reviewed: as well as a) above, regular testing is conducted with regards to performance and compliance monitoring. No issues have been identified for the year to date.
d) Develop and implement business continuity planning	Review/approval from SMT	Full test of business continuity plan to be completed by Q2 2015	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 was undertaken in April with feedback being presented to SMT and individual teams.
Review and implement investment strategy				
a) Review of investment strategy	Annual asset allocation review/SIP	Ensure investment strategy has regard to Fund’s funding position and liabilities	Annual with quarterly monitoring	New Investment Advisory Panel has been created to strengthen governance. Investment strategy review at September's Pensions Committee.
b) Implementation of investment strategy	Review/approval by Investment Advisory Sub-Committee	Ensure changes carried out within agreed timescales and cost-effectively	Quarterly	Quarterly updates on investment strategy implementation made to IASC. Reshaping of listed equities portfolio has taken place in the first half of 2015 along with, setting-up of internal active global equities management. Streamlining and simplification of portfolio ongoing: exit from hedge funds.
c) Monitoring of performance and portfolio changes	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. New Investment Advisory Panel created to strengthen oversight. Recent investment performance has at least matched benchmarks.
d) Voting and implementation of ESG policies	Reporting to Pensions Committee and Investment Advisory Sub-Committee/SRI Statement	Comprehensive voting programme and membership of LAPFF and other ESG initiatives	Quarterly	Responsible investment officer is managing an increasingly high workload and strengthening the fund's capacity in this area. A new Responsible Investment framework was adopted during the quarter.

Activity	Benchmark Measurement	Target	Frequency	Comments
Triennial actuarial valuation				
a) Engage with employing bodies and discuss issues	Consultation programme extended to all participating employers	Meet agreed timetable	Next actuarial valuation 2016	Extensive engagement undertaken with employing bodies, particularly around the 2013 valuation. Engagement for the 2016 valuation to begin around the summer/autumn of 2015. Plans will be developed followingthe planned meeting with finance directors in late August, to mirror the Scheme Advisory Board (SAB) work plan.
b) Collect data for valuation	Formal valuation project plan	Meet agreed timetable	Annually	Pending: data cleansing work planned for Q4 2015 / Q1 2016.
c) Communicate individual results	Actuarial contributions certified as per regulatory requirements	Meet agreed timetable	Next actuarial valuation 2016	Pending for 2016 valuation.
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	A review of the strategy is pending following the change of actuary, the 2016 valuation and outcome of the various SAB reviews.
e) Ongoing review of investment strategy to maintain SIP	Regulatory requirements	Comprehensive and up-to-date	Annual	SIP updated after changes in Investment strategy agreed. Reinforced with the adoption (in December 2014) of a statement of investment beliefs.
f) Regular employer covenant review	All employer covenants reviewed and necessary actions taken	Risk-based employer covenants	Annual	Under review ahead of 2016 valuation. Looking at how other Funds are developing their approach, and compiling a target list.

Activity	Benchmark Measurement	Target	Frequency	Comments
Trustee and Pensions Board member training				
a) Maintain and expand the opportunities to build trustee and pension board member 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 and Board 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 2014/15, trustees exceeded their training hours with a total of 869 hours which was an increase of over 150% from the previous year. Pensions Committee approved the training matrix for 2015/16 at their June meeting. The Pensions Board have also approved a new training timetable with the topics and presentations delivered at a level based on a training needs analysis survey completed by board members. Induction for all new Committee and Board members has been completed.
b) Monitoring of approved training policy	Wide range of knowledge-building opportunities provided	100% target achieved	Ongoing	The Trustee Management Officer is responsible for maintaining a record of trustee 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/Board members.
c) Identification of training needs and development of training plan	Wide range of knowledge-building opportunities provided	Training needs identified and addressed	Ongoing	As above
d) To ensure trustees meet TPR competency requirements	TPR framework and standards and training needs analysis	Compliance with CIPFA Knowledge and Skills requirements	Ongoing	As above

Activity	Benchmark Measurement	Target	Frequency	Comments
Developing people				
a) Ensure a skilled, flexible and professional workforce	Staff induction, training plan and appraisal	22 hours' training per annum and appraisals 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) Measure and improve competency levels through performance appraisals	Annual appraisal	All staff to have up-to-date appraisals	Annual appraisal with six-month review	Annual appraisals successfully delivered for 100% of all eligible staff. This process is constantly under review and the business development service are reviewing feedback and ways to improve for the future.
c) Learning and development guide developed and reviewed with due attention to training needs analysis and performance appraisals	Training needs addressed with development plan created	Training needs analysis to be reviewed annually	Annual	The Fund has developed a new training strategy for staff wanting to take on a degree or relevant training which will be assessed on a business case. In addition, the in-house training team have devised an intranet site on Sharepoint which provides training information, relevant links to external sites, materials from training sessions and a comments blog to identify and share common problems that may be easily resolved.
d) Cultivate a working environment where knowledge is shared	Knowledge library of all courses available on SharePoint	100% of internal courses made available via SharePoint	Ongoing	As well as above, staff briefing sessions take place circa twice a month on subjects that are current hot topics or on developments at the Fund.

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KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS JUNE 2015

Objective Reference	No	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/ Deterioration
D	1		**IMPROVE FUNDING LEVEL**							
		A	Funding level to increase from current levels of 70% (Taken from IAS26 Report)	>70%	GD	75.00%	31/03/13	75.00%	31/03/10	0.00%
C	2		**TRANSFERS IN**							
		M	Transfer in quotations processed within 10 days of receiving all the required information	90%	RB	89.02%	Apr 15 - Jun 15	0.00%	Apr 15 - May 15	89.02%
			Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		85.71%		0.00%		85.71%
			TRANSFERS OUT							
		M	Transfer out quotations processed within 20 days	90%	RB	68.51%	Apr 15 - Jun 15	62.36%	Apr 15 - May 15	6.15%
			Transfer out payments processed within 10 days	90%		37.38%		36.08%		1.30%
			RETIREMENTS							
		M	Retirement options to members within 15 days	90%	RB	21.36%	Apr 15 - Jun 15	27.12%	Apr 15 - May 15	-5.76%
			Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		96.73%		96.54%		0.19%
			New retirement benefits processed for payment following receipt of election within 5 days	90%		93.13%		91.50%		1.63%
			DEFERRED RETIREMENTS							
		M	Retirement options to members within 15 days	90%	RB	30.70%	Jun-15	N/A	Apr 15 - May 15	N/A
			Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		93.28%		N/A		N/A
			New retirement benefits processed for payment following receipt of election within 5 days	90%		91.74%		N/A		N/A
			DEATHS							
		M	Acknowledgement of a death due within 5 days of receiving the notification.	90%	RB	93.13%	Apr 15 - Jun 15	93.72%	Apr 15 - May 15	-0.59%
			Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		50.57%		52.78%		-2.21%
			Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		95.62%		96.55%		-0.93%
A	3		**EMPLOYER AND MEMBER SERVICE - CALLS**							
		M	85% of calls received to the customer helpline to be answered.	85%	RB	80.33%	Apr 15 - Jun 15	77.00%	Apr 15 - May 15	3.33%
		M	85% of calls received to the employer helpline to be answered.	85%	RB	92.67%	Apr 15 - Jun 15	90.50%	Apr 15 - May 15	2.17%
C	4		**CUSTOMER SATISFACTION/SURVEY**							
		Q	Overall **member** satisfaction score for employers to be 85%.	85%	RB	92.80%	Apr 15 - Jun 15	98.38%	Apr 14 - Mar 15	-5.58%
		Q	Overall **employer** satisfaction score for employers to be 85%.	85%	RB	100.00%	Apr 15 - Jun 15	76.00%	Apr-15	24.00%
B	5		**INVESTMENT RETURNS/OVERALL FUND PERFORMANCE**							
		M	Returns to be within +/- 2% of the benchmark (3 Yr Rolling) (West Midlands Pension Fund)	VARIANCE +/- 2%	GD/MC	BENCHMARK 10.22% ACTUAL 10.95% RELATIVE 0.73%	May-15	BENCHMARK 9.22% ACTUAL 10.58% RELATIVE 1.36%	Apr-15	-0.63%
C	6		**BENEFIT STATEMENTS**							
		A	ABS issued to 90% of eligible active members by 31st August 2015	90%	RB	83%	Sep-14	87%	Sep-13	-4.00%
			DBS issued to 85% of eligible deferred members by 31st August 2015	85%		98%	Jul-15	89%	May-14	9.00%
A	7		**CONTRIBUTIONS RECEIVED**							
		M	**Main Fund** 98% (total value) of contributions to be received by the due date.	98%	DK	99.14%	Apr 15 - Jun 15	99.21%	Apr 15 - May 15	-0.07%
			Travel Fund 98% (total value) of contributions to be received by the due date.	98%		100.00%	Apr 15 - Jun 15	100.00%	Apr 15 - May 15	0.00%
A	8		**CLEAN AUDIT REPORT**							
		A	Receive an unqualified audit opinion from the Main Funds external auditors	Clean Report	DK	Yes	Year to 31/03/2014	Yes	Year to 31/03/2013	
			Annual audit returns no significant findings	0 significant findings		0		0		0.00
			Receive an unqualified audit opinion from the Travel Funds external auditors	Clean Report		Yes	Year to	Yes	Year to	

KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS JUNE 2015

Objective Reference	No	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/ Deterioration
			Annual audit returns no significant findings	0 significant findings		0	31/03/2014	0	31/03/2013	0.00
A	9		**EXTERNAL ACCREDITATION**							
		M	The Fund to be shortlisted for 75% of the awards in which it is entered.	75%	RH	Applications	Apr 15 - Jun 15	Applications	Apr 15 - May 15	100.00%
						4		4		
						No. Pending		No. Pending		
						0		4		
						No. Shortlisted		No. Shortlisted		
						4		0		
						Percentage Shortlisted		Percentage Shortlisted		
						100%		0%		
		M	Retain CSE and IIP accreditations	100%	RH	100%	Apr 15 - Jun 15	100%	Apr 15 - May 15	0.00
A			**SICKNESS ABSENCE**							
	10	M	Average number of days lost to sickness per FTE member of staff. Sickness absence to be under 6 days per annum per member of staff - cumulative.	6 days	ALL	1.96	Apr 15 - Jun 15	1.09	Apr 15 - May 15	-0.87
			COST PER MEMBER							
A	11	A	Administration cost per member to be reduced from budgeted figure of £20.	£20	ALL	£20.13	Jun 15 (forecast to year end)	£20.57	May 15 (forecast to year end)	£0.44
			TRAINING HOURS							
A	12	Q	Average CPD per Fund employee to be 22 hours or more.	22 hours	ALL	16.82	Jun-15	15.34	Mar-15	1.48
			DATA QUALITY							
A	13	Q	**Common Data**		RB		Jun-15		Mar-15	
			Missing forename(s)	0%		0.00%		0.00%		0.00%
			Missing surname	0%		0.00%		0.00%		0.00%
			Incorrect gender for member's title	0%		0.01%		0.00%		0.01%
			Gender is not male or female	0%		0.00%		0.00%		0.00%
			Invalid or temporary NI number	0%		0.25%		0.38%		-0.13%
			Missing date of birth	0%		0.00%		0.00%		0.00%
			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%		0.01%		0.00%
			Date of birth is after date joined scheme	0%		0.00%		0.00%		0.00%
			Member has no address	0%		1.62%		2.62%		-1.00%
			Missing postcode	0%		1.92%		2.97%		-1.05%
			Missing scheme retirement date	0%		0.01%		0.04%		-0.03%
			Missing date joined pensionable service	0%		0.01%		0.00%		0.01%
			No entry in status history does not match current status	0%		0.01%		0.00%		0.01%
			Last entry in status history does not match current status	0%		0.70%		2.23%		-1.53%
			Category of membership status not on member record	0%		0.00%		0.00%		0.00%
			Conditional Data							
			Unavailable at present							
			TRUSTEE TRAINING AND PENSIONS BOARD							
A	14	Q	Satisfaction rate from feedback of trustee training/pension board events to be 90%.	90%	RH	100.00%	Apr 15 - Jun 15	100.00%	2014/2015	0.00%
			Attendance rate of trustees/board members at training events.	85%		55.00%	Apr 15 - Jun 15	N / A	Apr 15 - May 15	N / A
			Amount of training provided to trustees/board members during the year.	22 hours		1.00	Apr 15 - Jun 15	0.00	Apr 15 - May 15	1.00
			INFORMATION TO BE PUBLISHED QUARTERLY							
A	15	Q	Expenditure exceeding £500	31-Jul-15	DK	30-Jul-15	Jun-15	27-Apr-15	Mar-15	N/A
			Transactions on a Government Procurement Card			30-Jul-15		27-Apr-15		
			Procurement information Invitations to tender for goods and/or services with a value that exceeds £5,000.		RH	25-Jun-15		27-Apr-15		
			Procurement information Contracts, commissioned activity, purchase orders, framework agreements and any other legally enforceable agreement with a value that exceeds £5,000.			25-Jun-15		27-Apr-15		

KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS JUNE 2015

Objective Reference	No	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/ Deterioration
		STAFF TURNOVER								
A	16	Q	Staff turnover to be between 5-10% in a financial year *(Calculated as no. of leavers/no. of posts at start of year)*	5%-10%	RH	1.95%	Apr 15 - Jun 15	6.93%	Apr 14 - Mar 15	-4.98%
		AVAILABILITY OF ONLINE SERVICES								
A	17	Q	Website and web portal to be available 95% of the time	95%	RH	N/A	N/A	N/A	New Test wef Jul 15	N/A
			Number of members predicted to be registered on web portal by 31 March 2016	50,000		23,315	Jun-15	N/A	New Test wef Apr 15	N/A
		QUARTERLY ACCOUNTS								
A	18	Q	Days taken to prepare quarterly accounts	20 days	DK	33 days	Jun-15	N/A	New Test wef Apr 15	N/A
		QUALIFICATIONS								
A	19	Q	At least 75% of staff to hold a relevant qualification	75%	ALL	57%	Apr 15 - Jun 15	N/A	New Test wef Apr 15	N/A

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

FREQUENCY KEY	
A	Annual
Q	Quarterly
M	Monthly

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WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE QUARTER ENDING 30 JUNE 2015

Fund Account

2014/15 £m		Q1 2015/16 £m
	Contributions & Benefits	
(500.2)	Contributions Receivable	(232.6)
(9.5)	Transfers In	(1.4)
(15.7)	Other Income	(0.1)
(525.4)	**Total Contributions and Other Income**	**(234.1)**
498.3	Benefits Payable	124.9
261.5	Payments To and On Account of Leavers	4.2
0.4	Other Payments	0.1
760.2	**Total Benefits and Other Expenditure**	**129.2**
86.3	**Management Expenses**	**21.4**
	Returns on Investments	
(160.5)	Investment Income	(55.8)
(827.6)	Changes in Value of Investments	275.4
(652.6)	Profits and Losses on Disposal of Investments	43.6
(1,640.7)	**Net Return on Investments**	**263.2**
(1,319.6)	**Net (Increase)/Decrease in the Fund During the Period**	**179.7**
10,144.4	**Net Assets of the Fund at the Beginning of the Period**	**11,464.0**
11,464.0	**Net Assets of the Fund at the End of the Period**	**11,284.3**

WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE QUARTER ENDING 30 JUNE 2015

Net Assets Statement

31 March 2015 £m		30 June 2015 £m
	Investment Assets (at Market Value)	
185.9	Fixed Interest Securities	176.9
1,019.6	UK Equities	915.3
3,861.3	Overseas Equities	3,984.5
5,102.5	Pooled Investment Vehicles	4,968.8
656.4	Property	649.8
91.9	Foreign Currency Holdings	54.3
449.3	Cash Deposits	500.9
1.6	Other Investment Assets	-
44.3	Outstanding Dividend Entitlement and Recoverable With-Holding Tax	42.3
11,412.8	**Investment Assets**	**11,292.8**
11,412.8	**Net Investment Assets**	**11,292.8**
11.6	**Other Long-Term Assets**	**6.1**
63.8	**Current Assets**	**85.2**
(24.2)	**Current Liabilities**	**(99.8)**
11,464.0	**Net Assets of the Fund at the End of the Period**	**11,284.3**

Agenda Item No: **15**

Pensions Committee

23 September 2015

Report title	Risk and compliance monitoring 1 April 2015 – 30 June 2015	
Originating service	Pension Services	
Accountable employee(s)	Emma Bland Tel Email	Compliance and Risk Manager 01902 554387 emma.bland@wolverhampton.gov.uk
Report has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 geik.drever@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to:

1. Note the risk register for West Midlands Pension Fund.
2. Approve the proposal for reporting on risks to Committee going forward.
3. Note that no significant compliance issues have arisen during the quarter.
4. Approve the Fund's policy for reporting breaches of the law to The Pensions Regulator.

1.0 Purpose

1.1 To provide the Pensions Committee with the risk register, feedback on the quarterly compliance monitoring programme and to seek approval for reporting on risks to Committee going forward.

1.2 To seek approval for the Fund's policy for reporting breaches of the law to The Pensions Regulator.

2.0 Risk register

2.1 On 22 July 2015, the Fund held a Risk Workshop for Pensions Committee and Pension Board members as part of the trustee and board training programme. The Compliance and Risk Team ('Compliance') presented the top twenty risks and invited feedback on its contents and how it is structured. Compliance have reviewed this feedback and implemented suggested changes, highlighted in red in Appendix 1. These include:-

- Changes to risk ratings
- Further detail on controls in place
- The incorporation of risk G7, "Change in government policy/LGPS reforms"

2.2 Additionally, following a request at the workshop, for workforce planning and more frequent reporting on recruitment, this will be reported as part of the financial reporting.

2.3 In order to make the risk register a live document and provide focus, it is proposed that going forward, detailed risk registers will be maintained for each department of the Fund by Compliance and presented to the Senior Management Team quarterly. From these, the top ten risks will be agreed and presented to Pensions Committee quarterly.

2.4 The Fund's risks are assessed using a 5 x 5 scoring matrix to decide how likely they are to occur and how much of an impact they would have; the matrix is shown in Appendix 2.

3.0 Compliance monitoring programme

3.1 The Fund has in place a programme, which aims to ensure its internal and external operations meet acceptable standards and where possible best practice. External operations include those of the custodian, investment managers and other third parties such as Civica. Internal operations cover areas such as in-house investment management, finance, governance and administration of members' benefits.

3.2 The programme is directly linked to the risk register; testing the effectiveness of the controls in place to manage and mitigate risks.

3.3 The results of the tests carried out for the April to June 2015 quarter are summarised below on an exception reporting basis.

3.4 **Exception reporting**
Out of all of the tests carried out, the following was found:-

3.4.1 Pensions Administration

- The running of the conditional data report has been delayed due to system issues. The report will be run imminently, with the aim of presenting a data improvement plan to the next Pensions Committee and Pension Board. Following this, a mid-year review of progress will then be taken to the 2016 June/July Pension Board.

- We reported to The Pensions Regulator that we would not be able to issue 2014/15 annual benefit statements by the statutory deadline of 31 August 2015. The Pensions Regulator has confirmed no action will be taken if this is resolved by 31 October 2015.

3.4.2 Governance

- There were two breaches during the quarter which involved personal data being sent to the wrong recipient. These were one-off cases due to human error and were reported to the Council in accordance with internal procedures.

4.0 The Pensions Regulator's code of practice

4.1 In April 2015 The Pensions Regulator ("regulator") issued a code of practice for public service pension schemes. The code of practice sets out the legal requirements for public service pension schemes and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements. The Fund has assessed its compliance against this code of practice and in accordance with Code of practice 01, has identified the need for a Fund policy for reporting breaches of the law to the regulator.

4.2 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions.

4.3 The policy is attached in Appendix 3 and sets out the procedure which should be followed, as well as example breaches of the law.

4.4 In essence, where individuals believe that a breach has occurred, they should report it to Compliance, who will investigate and assess whether it is of material significance to the regulator, using the regulator's traffic light framework.

4.5 Decisions on whether to report should be made within 20 working days of the breach being initially reported to Compliance and where it is decided to report; breaches will be reported to the regulator within 5 days of the decision being made.

4.6 The breach (or suspected breach) will be documented and logged by Compliance and reported annually.

5.0 Financial implications

5.1 The compliance monitoring programme has not identified any areas of high concern.

6.0 Legal implications

6.1 **Risk management**

6.1.1 The need for effective risk management is reflected throughout guidance and regulation in the LGPS, notably in Regulation 12(2) of the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009*.

6.1.2 The Pensions Committee, as the body charged with governance of the administering authority's pensions operations, takes the responsibility for ensuring that there is effective risk management over those operations.

6.2 **Regulator's code of practice**
The code of practice sets out the legal requirements for public service pension schemes and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

7.0 Equalities implications

7.1 This report contains no direct equal opportunities implications.

8.0 Environmental implications

8.1 This report contains no direct environmental implications.

9.0 Human resources implications

9.1 The report contains no direct human resource implications.

10.0 Corporate Landlord

10.1 There are no corporate landlord implications.

11.0 Schedule of background papers

11.1 Agenda item no. 11 at the 24th June 2015 Pensions Committee: Risk and compliance monitoring 1 January to 31 March 2015, which can be found at: -
http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4824&Ver=4

12.0 Schedule of Appendices

12.1 Appendix 1 – West Midlands Pension Fund Risk Register

Appendix 2 – Impact and likelihood key

Appendix 3 – Policy for reporting breaches of the law

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WEST MIDLANDS PENSION FUND RISK REGISTER

PENSIONS ADMINISTRATION RISKS

Top 20	Objective at risk	Details of risk, including consequences: Area at risk	Risk ref.	Risk event	Assessment of risk (Assume NO controls in place): Impact	Likelihood	Risk rating	Control	Status (e.g. implemented, in progress, proposed)	% Complete	Assessment of risk (Control measures in place): Impact	Likelihood	Risk rating	Review frequency	Date of next review	Risk owner
In Top 20	To provide excellent customer service	Pensions Administration	PA1	The Pensions Administration Strategy (PAS) is not complied with by employers.	High (4)	Very high (5)	High (20)	1. Communication with employers at the Annual General Meeting (AGM) to ensure they understand the PAS and their requirements under it. The PAS is also sent out to employers for consultation.	1. Implemented	100%	High (4)	High (4)	High (16)	1. Annually	Dec 15	Head of Pensions Administration
								2. Employers adherence to the PAS is monitored.	2. In progress	33%				2. Annually	Apr 16	
								3. PAS regularly reviewed and cleared by committee.	3. Implemented	100%				3. Annually	Mar 16	
								4. Monthly monitoring of contribution payments by Finance.	4. Implemented	100%				4. Monthly	Aug 15	
In Top 20	To improve our funding level	Pensions Administration	PA2	Liabilities need to be orphaned across the Funds remaining employers in the event of an employer failing.	High (4)	High (4)	High (16)	1. All new employer bodies need to have a suitable guarantee/covenant in place prior to being admitted into the scheme	1. Implemented	100%	High (4)	Medium (3)	Medium (12)	1. Quarterly	Sep 15	Head of Pensions Administration
								2. Monitoring is carried out on existing employers and the covenant strength is assessed and each employer is risk rated.	2. In progress	60%				2. Quarterly		
								3. Higher risk employers are monitored closely by the Employer Team	3. In progress	100%				3. Quarterly		
								4. Where there are concerns, the Fund opens dialogue with the relevant employers and where possible, arranges face-to-face meetings to explore their situation in more detail. Once the Fund has a more detailed understanding of the situation, it will discuss the possibility of the provision of additional security by those organisations to further strengthen their covenant.	4. In progress	15%				4. Quarterly		
In Top 20	To provide excellent customer service	Pensions Administration	PA3	Pension benefits are calculated with inaccurate or incomplete data.	Medium (3)	Very high (5)	High (15)	1. Robust process in place to ensure accuracy of calculations, including officer checking.	1. Implemented	100%	Medium (3)	High (4)	Medium (12)	1. Quarterly	Sep 15	Head of Pensions Administration
								2. Induction training to ensure officers are suitably skilled, as well as regular staff training to raise awareness of the importance of data quality.	2. Implemented	100%				2. On-going	N/A	
								3. Data quality reviews of common and conditional data in place and reported to Committee quarterly.	3. Implemented	100%				3. Quarterly	Sep 15	
								4. The PAS sets out expectations and requirements of employers in relation to data quality.	4. Implemented	100%				4. Annually	Mar 16	
								5. Communication with employers at AGM to stress the importance of complete and accurate data.	5. Implemented	100%				5. Annually	Dec 15	
								6. Data validation checks undertaken:- (a) by actuary at valuation	6. (a) Implemented	100%				6. (a) Triennially	Mar 16	
								(b) through National Fraud Initiative	(b) Implemented	100%				(b) Every 2 years	Mar 16	
								(c) through Millennium Halo	(c) Implemented	100%				(c) Monthly	Aug 15	
								7. Web portal in place for members to input their details directly	7. Implemented	100%				7. On-going	N/A	
								8. Bulk data import in place for employers to load their joiners data straight to the Fund's system - reviewed at Employer Peer Group	8. Implemented	100%				8. Quarterly	24 Sep 15	
								9. Bulk data import in progress for employers to load their member changes data straight to the Fund's system - reviewed at Employer Peer Group	9. In progress	95%				9. Quarterly	24 Sep 15	
								10. Bulk data import to enable employers to load their early leavers data straight to the Fund's system has been put on hold. The Fund provided a specification for this to Civica, but then found that Civica are producing a standard product which is likely to be cheaper - reviewed at Employer Peer Group	10. Proposed	0%				10. Quarterly	24 Sep 15	
								11. Individual member changes and individual early leavers data can be loaded straight to the Fund's system by employers.	11. Implemented	100%				11. Quarterly	24 Sep 15	

WEST MIDLANDS PENSION FUND RISK REGISTER

APPENDIX 1

Top 20	Objective at risk	Details of risk, including consequences			Assessment of risk (Assume NO controls in place)			Control	Status (e.g. implemented, in progress, proposed)	% Complete	Assessment of risk (Control measures in place)			Review frequency	Date of next review	Risk owner
		Area at risk	Risk ref.	Risk event	Impact	Likelihood	Risk rating				Impact	Likelihood	Risk rating			
In Top 20	To improve our funding level	Pensions Administration	PA4	Payment of pensions are not made.	High (4)	Medium (3)	Medium (12)	1. Ensure contingencies are put in place to cover the pensions payroll - e.g. Civica could be notified to repeat the previous month's payments.	1. Implemented	100%	Medium (3)	Low (2)	Medium (6)	1. Annually	Feb 16	Head of Pensions Administration
								2. Monthly cash flow monitoring is conducted by the Finance team with regular reports to Investment Management Team (IMT) meetings.	2. Implemented	100%				2. Monthly	Aug 15	
								3. Fund holds liquid assets.	3. Implemented	100%				3. Monthly	Aug 15	
								4. Business continuity plan in place including ability to access systems from home.	4. Implemented	100%				4. Annually	Feb 16	
In Top 20	To provide excellent customer service	Pensions Administration	PA5	The Fund does not complete the GMP reconciliation.	High (4)	Very high (5)	High (20)	1. A project is underway to achieve this by December 2018.	1. In progress	10% - 15%	High (4)	High (4)	High (16)	Monthly	Aug 15	Head of Pensions Administration
								2. Initial analysis has been completed.								
								3. Progress of the project is reported monthly to the Senior Management Team.								
								4. Report to Pensions Committee quarterly.								
In Top 20	To provide excellent customer service	Pensions Administration	PA6	Increase in the take-up of Freedom of choice	Medium (3)	Medium (3)	Medium (9)	1. Transfer out process reviewed to ensure it meets the requirements of the Pension Regulator and LGE.	1. Implemented	100%	Medium (3)	Low (2)	Medium (6)	1. Annually	Mar 16	Head of Pensions Administration
								2. Appropriate Liberation Fraud information is issued to all members requesting a transfer.	2. Implemented	100%				2. Annually		
								3. Customer services staff trained to identify possible cases and to send them for review as applicable.	3. Implemented	100%				3. Annually		
								4. Management review step, in transfer out process and cheque has to be signed by the Strategic Director of Pensions with confirmation of management review step.	4. Implemented	100%				4. Annually		
In Top 20	To improve our funding level	Pensions Administration	PA7	Future liabilities increase	High (4)	High (4)	High (16)	1. The Fund undergoes a triennial valuation, in conjunction with the Fund's actuary. Although liabilities will increase, controls are put in place to ensure assets keep pace with liabilities. The closer the match,	1. Implemented	100%	Medium (3)	High (4)	Medium (12)	1. Triennially	Mar 16	Assistant Director - Actuarial and Investments
								2. **Life expectancy:** Although there is no life expectancy hedging, a prudent allowance is built into the actuarial assumption, for life expectancy to improve.	2. Implemented	100%				2. Triennially		
								3. **Inflation and wage and salary inflation:** The Fund invests in index-linked bonds and the PIP, which provides an index linked income stream.	3. Implemented	100%				3. Triennially		
								4. **Interest rates:** Investment returns are monitored quarterly with liabilities in mind.	4. Implemented	100%				4. Quarterly		

WEST MIDLANDS PENSION FUND RISK REGISTER

INVESTMENT RISKS

Top 20	Objective at risk	Details of risk, including consequences: Area at risk	Risk ref.	Risk event	Assessment of risk (Assume NO controls in place): Impact	Likelihood	Risk rating	Control	Status (e.g. implemented, in progress, proposed)	% Complete	Assessment of risk (Control measures in place): Impact	Likelihood	Risk rating	Review frequency	Date of next review	Risk owner
In Top 20	To achieve target investment returns	Investments	I1	Investment strategy is implemented poorly.	High (4)	Medium (3)	Medium (12)	1. Planning by staff. 2. The asset allocation/strategy are reviewed annually with reference to the FSS and SIP, to ensure that they continue to reflect each other. 3. Pension Committee (PC), Investment Advisory Sub-Committee (IASC), Investment Advisory Panel (IAP) oversight. For the Integrated Transport Authority (ITA) - Investment Strategy Panel (ISP) oversight.	Implemented	100%	High (4)	Low (2)	Medium (8)	1. Annually 2. Annually 3. Quarterly	Jun 16 Jun 16 Jun 16	Assistant Director - Investments
In Top 20	To achieve target investment returns	Investme nts	I2	Fund does not achieve investment returns.	High (4)	High (4)	Medium (16)	1. Diversified portfolio. 2. Monthly monitoring of investment manager performance at IMT meetings. 3. Regular monitoring of market conditions.	Implemented	100%	High (4)	Low (2)	Medium (8)	Monthly	Aug 15	Assistant Director - Investments
In Top 20	To achieve target investment returns	Investments	I3	The Fund has an inappropriate asset allocation.	High (4)	Medium (3)	Medium (12)	1. Asset allocation is reviewed alongside Asset Liability Modelling (ALM) and the Funding Strategy Statement (FSS) 2. Investment specialists give presentations at Pensions Committee and Trustees are provided with regular training. 3. Support and guidance from professional and experienced staff. 4. Structure in place for the setting and approval of the asset allocation. 5. The Fund has independent advisors and an Investment Advisory Panel (IAP), (or Investment Strategy Panel (ISP) for the ITA) to oversee investment management.	Implemented	100%	Medium (3)	Low (2)	Medium (6)	1. Annually 2. Annually 3. Monthly 4. Monthly 5. N/A	Jun 16 Jun 16 Aug 15 Aug 15 N/A	Assistant Director - Investments
In Top 20	To achieve target investment returns	Investments	I4	Poor fund manager selection.	Low (2)	High (4)	Medium (8)	1. 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 Strategic Director of Pensions. 2. Manager performance is monitored at monthly Investment meetings.	Implemented	100%	Low (2)	Medium (3)	Medium (6)	Adhoc Monthly	N/A Aug 15	Assistant Director - Investments
In Top 20	To achieve target investment returns	Investments	I5	Investment Managers/custodian internal control arrangements expose the Fund to loss of assets.	Medium (3)	Medium (3)	Medium (9)	1. Compliance questionnaires sent out to managers annually. 2. Annual review of AAF/Internal Control reports for managers. 3. Compliance visits to managers where issues are identified 4. Internal control arrangements reviewed in due diligence process on manager selection. 5. Monthly reconciliations of assets is conducted. 6. Annual review of custodian. 7. Regular valuation and benchmarking exercises carried out. 8. Use of a highly respected global custodian for safekeeping of assets and entitlements. 9. Trained and experienced staff. 10. Regular reconciliations of assets including physical reconciliation of ownership documentation. 11. Collateral collected prior to all stock lending arrangements and the collateral received is greater than that lent out. 12. Reputable custodian	1. Proposed 2. Implemented 3. Implemented 4. Implemented 5. Implemented 6. Implemented 7. Implemented 8. Implemented 9. Implemented 10. Implemented 11. Implemented 12. Implemented	0% (1) 100% (2-12)	Medium (3)	Low (2)	Medium (6)	1 - 4. Annually 5. Monthly 6 - 9. Annually 10 - 12. Quarterly	Jun 16 Aug 15 Feb 16 Sep 15	Assistant Director - Investments

WEST MIDLANDS PENSION FUND RISK REGISTER

GOVERNANCE RISKS

Top 20	Objective at risk	Details of risk, including consequences			Assessment of risk (Assume NO controls in place)			Control	Status (e.g. implemented, in progress, proposed)	% Complete	Assessment of risk (Control measures in place)			Review frequency	Date of next review	Risk owner
		Area at risk	Risk ref.	Risk event	Impact	Likelihood	Risk rating				Impact	Likelihood	Risk rating			
In Top 20	To become a top performing fund	Governance	G1	The Fund breaches Information Security and Data Quality regulations.	High (4)	Very high (5)	High (20)	1. Continuous staff training on data protection 2. In-depth training for senior managers on information governance 3. There is an information governance project underway in preparation for an information governance audit in December. 4. Data encryption and password protection 5. Use of file transfer protocol 6. All information security breaches are reported and any systemic issues are identified and corrected. 7. System back-up to protect against data loss.	1. Implemented 2. Implemented 3. In progress 4. Implemented 5. Implemented 6. Implemented 7. Implemented	100% 100% 50% 100% 100% 100% 100%	Medium (3)	High (4)	Medium (12)	Annually	Dec 15	Head of Governance
In Top 20	To become a top performing fund	Governance	G2	Lack of independence between the Fund, elected members and pension board representatives from their authorities, resulting in poor decision making	High (4)	High (4)	High (16)	1. Full trustee induction training is provided to members on joining the Pensions Committee and Pensions Board to inform them of their duties and responsibilities. 2. There are sufficient numbers on the Committee to ensure that the Fund's interests are put before individual authorities. 3. Members are bound by codes of conduct. 4. Conflicts of interest policy in place for Pensions Committee and Pensions Board 5. All districts are represented and have voting powers. 6. Clear delegation of authority within the Council and the Fund's separate constitutions, setting out the roles and responsibilities of the Fund. 7. Conflicts of interest policy in place for Pensions Committee and Pensions Board.	1. Implemented 2. Implemented 3. Implemented 4. Implemented 5. Implemented 6. Implemented 7. Implemented	100% 100% 100% 100% 100% 100% 100%	High (4)	Medium (3)	Medium (12)	Quarterly	Sep 15	Head of Governance
In Top 20	To provide excellent customer service	Governance	G3	The Fund cannot continue to operate and deliver its priority services following a disaster, IT incident or data loss scenario.	High (4)	Medium (3)	Medium (12)	1. Business continuity plan in place for incidents which deny access to Mander House. Includes ability to access systems from home. The plan is regularly reviewed and tested. 2. WCC has 2 servers at a primary site (the Civic Centre) and 2 servers at a secondary site (Stafford County Council). The Fund's data is mirrored at both sites. 3. Testing of the business continuity plan by WCC is in the early stages. Compliance and Risk Team to liaise with WCC's IT department, to ensure testing takes place.	1. Implemented 2. Implemented 3. In progress	100% 100% 10%	Medium (3)	Medium (3)	Medium (9)	Annually	Feb 16	Head of Governance
In Top 20	To become a top performing fund	Governance	G4	The Fund is subject to fraud.	High (4)	Medium (3)	Medium (12)	1,. Pensions system has built in controls which require segregation of duties. 2. Regular external and internal audit reviews carried out on Fund systems and processes. 3. Annual undertaking for all staff in relation to conduct and behaviour. 4. The fund is included in WCC's Fraud programme.	1. Implemented 2. Implemented 3. Implemented 4. Implemented	100% 100% 100% 100%	Medium (3)	Low (2)	Medium (6)	Annually	Aug 15	Head of Governance
In Top 20	To provide excellent customer service	Governance	G5	Failure to recruit and retain people with the right experience, qualifications and skill sets.	Medium (3)	Medium (3)	Medium (9)	1. Staffing structure and training/development plans of the Fund are such that a certain degree of natural succession is available. 2. Exit plans are in place for officers when they leave to ensure that key tasks etc. are picked up. 3. Signatory lists are reviewed regularly.	1. Implemented 2. Implemented 3. Implemented	100% 100% 100%	Medium (3)	Low (2)	Medium (6)	Annually	Aug 15	Head of Governance

WEST MIDLANDS PENSION FUND RISK REGISTER

Top 20	Objective at risk	Details of risk, including consequences			Assessment of risk (Assume NO controls in place)			Control	Status (e.g. implemented, in progress, proposed)	% Complete	Assessment of risk (Control measures in place)			Review frequency	Date of next review	Risk owner
		Area at risk	Risk ref.	Risk event	Impact	Likelihood	Risk rating				Impact	Likelihood	Risk rating			
In Top 20	To provide excellent customer service	Governance	G6	Failure to adhere to statutory requirements/LGPS regulations.	High (4)	Medium (3)	Medium (12)	1. Governance team in place to help translate regulations 2. Technical team in place to help translate regulations and to ensure new systems meet regulatory requirements. 3. Robust testing process for any system changes. 4. Use of other Fund's (that use UPM) knowledge. 5. Civica have enhanced their specialist LGPS knowledge and can challenge any changes which do not adhere to the regulations. 6. Communication that there may be a short period where turnaround times may not meet performance measures due to desire to maintain accuracy during the period of change.	1. Implemented 1. In progress 2. In progress 3. in progress 4. In progress 5. Implemented	100% 70%	High (4)	Low (2)	Medium (8)	Fortnightly	W/c 5th May 2015	Head of Pensions Administration
In Top 20	All objectives	Governance	G7	Change in government policy/LGPS reforms	Very high (5)	High (4)	High (20)	1. The Fund keeps abreast of developments, participating in consultation and calls for evidence, and collaborating with other funds.	1. Implemented	100%	High (4)	High (4)	High (16)	Monthly	Aug-15	Strategic Director of Pensions

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FINANCE RISKS

Top 20	Objective at risk	Details of risk, including consequences			Assessment of risk (Assume NO controls in place)			Control	Status (e.g. implemented, in progress, proposed)	% Complete	Assessment of risk (Control measures in place)			Review frequency	Date of next review	Risk owner
		Area at risk	Risk ref.	Risk event	Impact	Likelihood	Risk rating				Impact	Likelihood	Risk rating			
In Top 20	To provide excellent customer service	Finance	F1	Payments are delayed	Low (2)	High (4)	Medium (8)	1. Processes in place for checking and making payments promptly. 2. Increase in communication between departments.	1. Implemented 2. Implemented	100% 100%	Low (2)	Medium (3)	Medium (6)	Monthly	Jul 15	Head of Finance
In Top 20	To become a top performing Fund	Finance	F2	Inability to settle trades due to inadequate cash flow.	Medium (3)	High (4)	Medium (12)	1. Monthly cash flow monitoring is conducted by the Finance team with regular reports to IMT. 2. Fund holds liquid assets, the levels of which it reviews at monthly IMT meetings. 3. Constant dialogue between investments and finance setting out investment intentions early.	1. Implemented 2. Implemented 3. Implemented	100% 100% 100%	Medium (3)	Low (2)	Medium (6)	1. Monthly 2. Monthly 3. Monthly	Jul 15 Jul 15 Jul 15	Head of Finance

IMPACT AND LIKELIHOOD KEY

The Fund uses a 5-point scoring system to assess the likelihood and impact of the risks it identifies.

Likelihood	Definition	Scale	Value
Very high	Extremely likely to occur	71-99% chance	5
High	Fairly likely to occur	51-70% chance	4
Medium	Possible it may occur	31-50% chance	3
Low	Low but not impossible	11-30% chance	2
Very low	Very low but not impossible	Up to 10% chance	1

Impact	Definition	Scale	Value
Very high	Cannot achieve one or more objectives	Showstopper	5
High	Large impact on objectives	Major shortfalls	4
Medium	Medium impact on objectives	Some shortfalls	3
Low	Low impact on objectives	A few shortfalls	2
Very low	Very low impact on objectives	Few shortfalls of a limited nature	1

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Reporting Breaches of the Law Policy

Contents

1. Purpose

1.1 In April 2015 The Pensions Regulator ('the regulator'), issued a code of practice for public service pension schemes. The code of practice sets out the legal requirements for public service pension schemes and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

1.2 One of the codes of practice is the requirement for certain people to report breaches of the law to the regulator.

1.3 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions.

1.4 Identifying and assessing a breach of the law is important in reducing risk and providing an early warning of possible malpractice in public service pension schemes.

1.5 The aim of this policy is to enable people to raise concerns and facilitate the objective consideration of those matters. This policy allows for reporters to decide within an appropriate timescale whether they must report a breach.

2. Scope

2.1 People who are subject to the reporting requirement ('reporters') are:

- The scheme manager or manager of the scheme
- A pension board member
- An employer, (regardless of whether the breach relates to, or affects, members who are its employees or those of other employers)
- A professional adviser, e.g. auditor, actuary, legal adviser, fund manager
- A person involved in scheme administration
- A person who advises the manager of the scheme (in relation to the scheme)

2.2 All parties must understand and adopt this policy.

3. Definition

3.1 The 'scheme manager' is the administering authority of West Midlands Pension Fund, i.e. Wolverhampton City Council ('Council'), responsible for managing and administering the scheme.

3.2 In this policy 'scheme' refers to West Midlands Pension Fund.

4. Policy

4.1 When to consider reporting

The above people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- A legal duty relevant to the administration of the scheme has not been, or is not being, complied with

- The failure to comply is likely to be of material significance to the regulator

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions. Examples of breaches can be found in Appendix 3.

4.2 Judging whether there is 'reasonable cause'

4.2.1 Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

4.2.2 Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

4.2.3 To facilitate this, reporters should report the breach to the Fund's Compliance and Risk Team ('Compliance') immediately, who will log the breach (or suspected breach) and investigate, clarify the facts and document the findings using form tPR attached (Appendix 1). The form can also be found at www.wmpfonline.com/governance

4.2.4 It may not be appropriate to check in cases of theft, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the regulator without delay.

4.2.5 If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view. For Compliance or for an individual needing to alert the regulator separately, they could consult with the Council's monitoring officer.

4.2.6 In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter or Compliance to gather all the evidence which the regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

4.3 Material significance

4.3.1 In deciding whether a breach is likely to be of 'material significance' to the regulator, the cause, effect, reaction to and wider implications of the breach should be considered, using the traffic light framework.

4.3.2 Once each factor has been rated, it should be determined which overall reporting traffic light, the breach falls into – red, amber or green.

4.3.3 Compliance will use the aforementioned form tPR to document and consider the breach (or suspected breach) and decide whether to report.

4.3.4 If necessary expert or professional advice should be taken into account.

4.4 Cause of the breach

4.4.1 The breach is likely to be of material significance to the regulator where it was caused by:

- Dishonesty
- Poor governance or administration
- Slow or inappropriate decision making practices
- Incomplete or inaccurate advice, or
- Acting (or failing to act) in deliberate contravention of the law

4.4.2 When deciding whether a breach is of material significance, reporters should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.

4.4.3 A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. But in such a situation, it is also important to consider other aspects of the breach such as the effect it has had and to be aware that persistent isolated breaches could be indicative of wider scheme issues.

4.5 Effect of the breach

4.5.1 Reporters need to consider the effects of any breach, but with the regulator's role in relation to public service pension schemes and its statutory objectives in mind, the following matters in particular should be considered likely to be of material significance to the regulator:

- Pension board members not having the appropriate degree of knowledge and understanding, which may result in the pension board not fulfilling its role, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements

- Pension board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements

- Adequate internal controls not being established and operated, which may lead to the scheme not being run in accordance with the scheme's regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time

- Accurate information about benefits and scheme administration not being provided to scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement

- Appropriate records not being maintained, which may result in member benefits being calculated incorrectly and / or not being paid to the right person at the right time

- Pension board members misappropriating any assets of the scheme or being likely to do so, which may result in scheme assets not being safeguarded, and

- Any other breach which may result in the scheme being poorly governed, managed or administered.

4.5.2 Reporters need to take care to consider the effects of the breach, including any other breaches occurring as a result of the initial breach and the effects of those resulting breaches.

4.6 Reaction to the breach

4.6.1 Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the regulator will not normally consider this to be materially significant.

4.6.2 A breach is likely to be of concern and material significance to the regulator where a breach has been identified and those involved:

- Do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence

- Are not pursuing corrective action to a proper conclusion, or

- Fail to notify affected scheme members where it would have been appropriate to do so.

4.7 Wider implications of the breach

4.7.1 Reporters should consider the wider implications of a breach when they assess which breaches are likely to be materially significant to the regulator.

4.7.2 For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future.

4.7.3 This may be due to the scheme manager or pension board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For instance, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

4.8 Decision to report

4.8.1 If having considered 4.4 to 4.7, it is deemed that overall the breach falls into a red reporting traffic light, the breach should be reported.

4.8.2 For amber breaches, the reporter or Compliance should use their judgement to decide whether to report. Green breaches do not need to be reported.

4.8.3 The decision on whether to report should be made within 20 working days of the breach being initially reported to Compliance and should be documented on form tPR.

4.8.4 The record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue.

4.8.5 If required, Compliance should report the breach to the regulator within 5 days of a decision being made to report.

4.9 Reports to the regulator

4.9.1 Reports must be submitted in writing and can be sent by post or electronically, including by email or by fax. Wherever possible, reporters should use the standard format available via the Exchange online service on the regulator's website.

4.9.2 The report should be dated and include as a minimum:

- Full name of the scheme
- Description of the breach or breaches
- Any relevant dates
- Name of the employer or scheme manager (where known)
- Name, position and contact details of the reporter, and
- Role of the reporter in relation to the scheme

Additional information that would help the regulator includes:

- The reason the breach is thought to be of material significance to the regulator
- The address of the scheme
- The contact details of the scheme manager (if different to the scheme address)
- The pension scheme's registry number (if available), and
- Whether the concern has been reported before.

4.9.3 Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.

4.9.4 Reporters should ensure they receive an acknowledgement for any report they send to the regulator. Only when they receive an acknowledgement can the reporter be confident that the regulator has received their report. This date should be recorded by Compliance to complete form tPR.

4.9.5 The regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.

4.9.6 The reporter should provide further information or reports of further breaches if this may help the regulator to exercise its functions. The regulator may make contact to request further information.

4.9.7 Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.

4.9.8 In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, the regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the regulator to the breach.

4.10 Whistleblowing protection and confidentiality

4.10.1 The Pensions Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.

4.10.2 The statutory duty to report does not, however, override 'legal privilege'. This means that oral and written communications between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.

4.10.3 The regulator will do its best to protect a reporter’s identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter’s identity becomes unavoidable in law. This includes circumstances where the regulator is ordered by a court to disclose it.

4.10.4 The Employment Rights Act 1996 (ERA) provides protection for employees making a whistleblowing disclosure to the regulator. Consequently, where individuals employed by firms or another organisation having a statutory duty to report, disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The regulator expects such individual reports to be rare and confined to the most serious cases.

5. Compliance

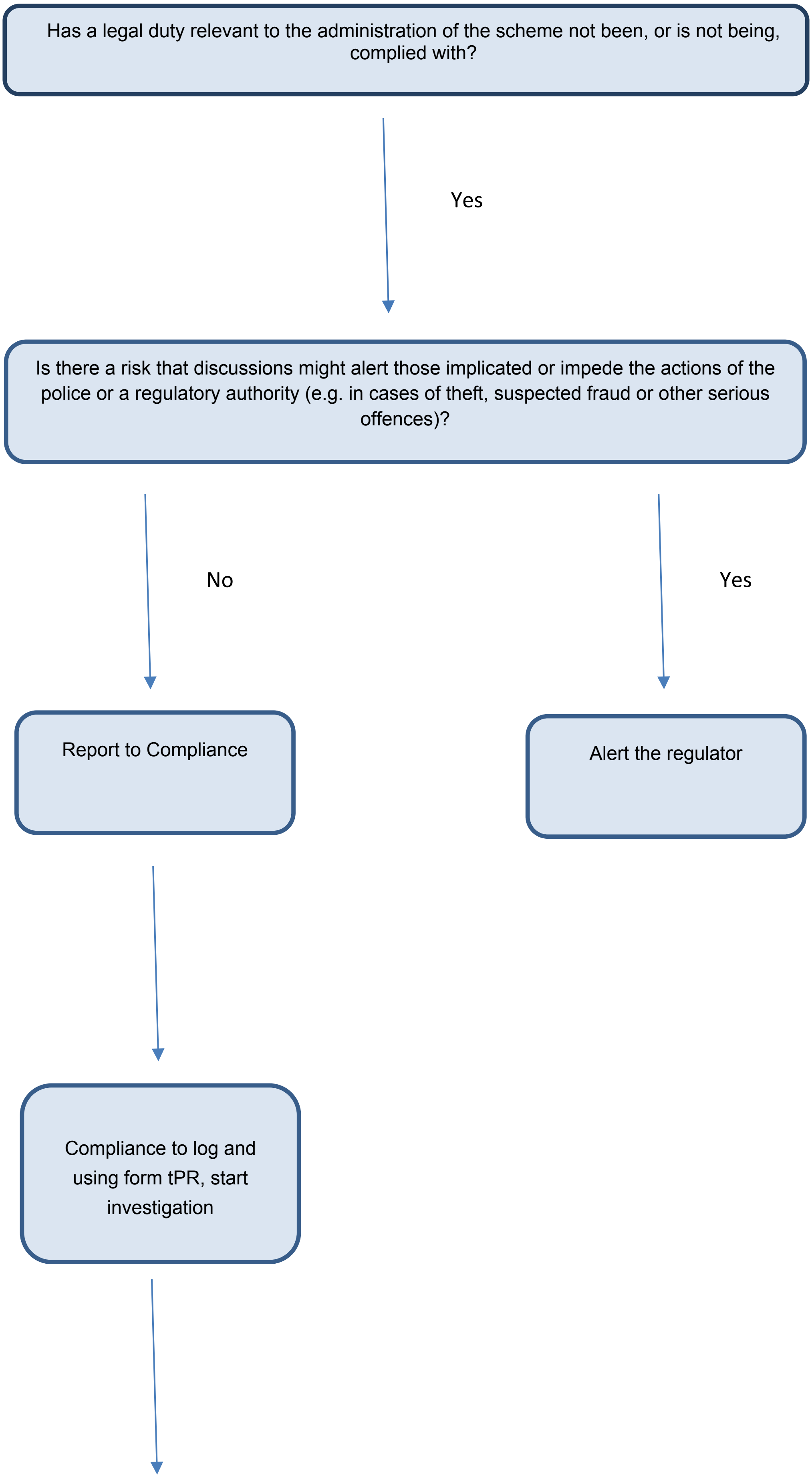
5.1 Compliance with this policy will be monitored and reviewed by the Compliance and Risk Team and will be subject to review by Pensions Board.

6. Review

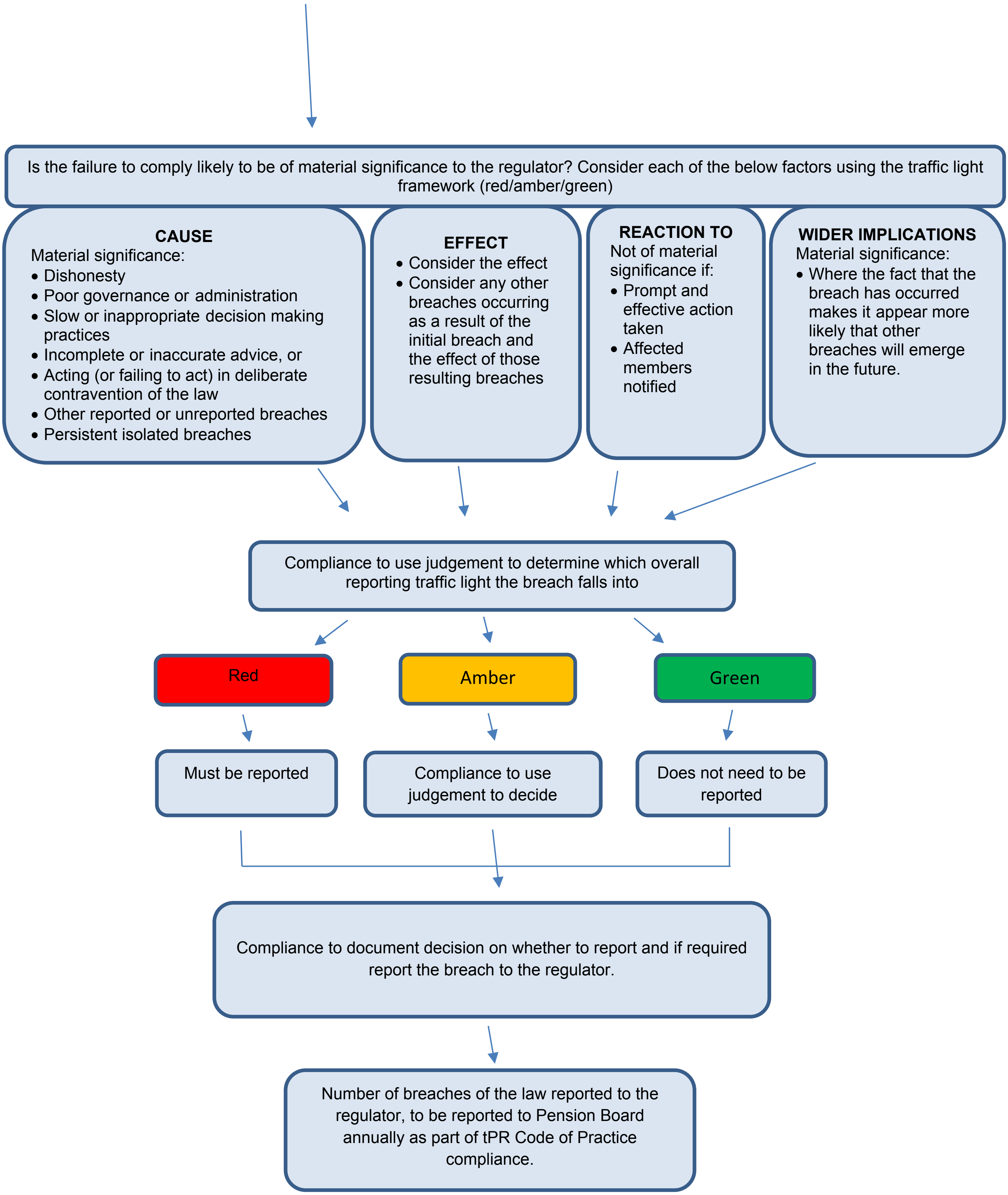
6.1 This policy will be reviewed at least annually or more frequently if required.

WEST MIDLANDS PENSION FUND	
Breach of the law	
Breach details	
Date of breach	
What type of disclosure has been breached?	
Please provide details of the breach (to a maximum of 4000 characters)	
Rectifying the breach	
Has this breach been rectified?	
If yes, what steps were taken to rectify the breach?	
If no, what steps are being taken to rectify the breach?	
If the breach has not been rectified, what are the timescales for completion?	
Additional breaches or any other information	
Please provide details of any additional breaches or other information that you think is relevant (to a max of 4000 characters)	
Decision to report	
Name and position of reporter	
Decision on whether to report (Yes or No, with reasons)	
Date reported	
Date acknowledged by The Pensions Regulator	

Procedure flow chart **Appendix 2**



Procedure flowchart continued



Public Service toolkit downloadable

Introduction

Certain people involved with the governance and administration of a public service pension scheme must report certain breaches of the law to The Pensions Regulator. These people include scheme managers, members of pension boards, employers, professional advisers and anyone involved in administration of the scheme or advising managers. You should use the traffic light framework when you decide whether to report to us. This is defined as follows:

- Red breaches must be reported.
- Amber breaches are less clear cut: you should use your judgement to decide whether it needs to be reported.
- Green breaches do not need to be reported.

All breaches should be recorded by the scheme even if the decision is not to report.

When using the traffic light framework you should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together.

As each breach of law will have a unique set of circumstances, there may be elements which apply from one or more of the red, amber and green sections. You should use your own judgement to determine which overall reporting traffic light the breach falls into.

By carrying out this thought process, you can obtain a greater understanding of whether or not a breach of the law is likely to be of material significance and needs to be reported.

You should not take these examples as a substitute for using your own judgement based on the principles set out in the draft public service code of practice as supported by relevant pensions legislation. They are not exhaustive and are illustrative only.

Example breaches of the law and the traffic light framework

The Pensions Regulator

Knowledge and understanding required by pension board members

Example scenario: The scheme manager has breached a legal requirement because pension board members failed to help secure compliance with scheme rules and pensions law.

	Potential investigation outcomes			
	Cause	**Effect**	**Reaction**	**Wider implications**
Red	Pension board members have failed to take steps to acquire and retain the appropriate degree of knowledge and understanding about the scheme's administration policies	A pension board member does not have knowledge and understanding of the scheme's administration policy about conflicts of interest. The pension board member fails to disclose a potential conflict, which results in the member acting improperly	Pension board members do not accept responsibility for their failure to have the appropriate knowledge and understanding or demonstrate negative/non-compliant entrenched behaviours The scheme manager does not take appropriate action to address the failing in relation to conflicts	It is highly likely that the scheme will be in breach of other legal requirements. The pension board do not have an appropriate level of knowledge and understanding and in turn are in breach of their legal requirement. Therefore, they are not fulfilling their role to assist the scheme manager and the scheme is not being properly governed
Amber	Pension board members have gaps in their knowledge and understanding about some areas of the scheme's administration policies and have not assisted the scheme manager in securing compliance with internal dispute resolution requirements	Some members who have raised issues have not had their complaints treated in accordance with the scheme's internal dispute resolution procedure (IDRP) and the law	The scheme manager has failed to adhere precisely to the detail of the legislation where the breach is unlikely to result in an error or misunderstanding or affect member benefits	It is possible that the scheme will be in breach of other legal requirements. It is possible that the pension board will not be properly fulfilling their role in assisting the scheme manager
Green	Pension board members have isolated gaps in their knowledge and understanding	The scheme manager has failed to adhere precisely to the detail of the legislation where the breach is unlikely to result in an error or misunderstanding or affect member benefits	Pension board members take action to review and improve their knowledge and understanding to enable them to properly exercise their functions and they are making quick progress to address gaps in their knowledge and understanding. They assist the scheme manager to take prompt and effective action to remedy the breach	It is unlikely that the scheme will be in breach of other legal requirements. It is unlikely that the pension board is not fulfilling their role in assisting the scheme manager

Scheme record-keeping

Example scenario: An evaluation of member data has identified incomplete and inaccurate records.

	Potential investigation outcomes			
	Cause	**Effect**	**Reaction**	**Wider implications**
Red	Inadequate internal processes that fail to help employers provide timely and accurate data, indicating a systemic problem	All members affected (benefits incorrect/not paid in accordance with the scheme rules, incorrect transactions processed and poor quality information provided in benefit statements)	Action has not been taken to identify and tackle the cause of the breach to minimise the risk of recurrence nor to notify members	It is highly likely that there are wider scheme issues caused by inadequate processes and that the scheme will be in breach of other legal requirements
Amber	A failure by some – but not all – participating employers to act in accordance with scheme procedures, indicating variable standards of implementing those procedures	A small number of members affected	Action has been taken to identify the cause of the breach, but progress to tackle it is slow and there is a risk of recurrence	It is possible that there are wider scheme issues and that the scheme may be in breach of other legal requirements
Green	A failure by one participating employer to act in accordance with scheme procedures, indicating an isolated incident	No members affected at present	Action has been taken to identify and tackle the cause of the breach and minimise the risk of recurrence	It is unlikely that there are wider scheme issues or that the scheme manager will be in breach of other legal requirements

Providing information to members

Example scenario: An active member of a defined benefit (DB) public service scheme has reported that their annual benefit statement, which was required to be issued within 17 months of the scheme regulations coming into force, has not been issued. It is now two months overdue. As a consequence, the member has been unable to check:

- personal data is complete and accurate
- correct contributions have been credited
- what their pension may be at retirement

	Potential investigation outcomes			
	Cause	**Effect**	**Reaction**	**Wider implications**
Red	Inadequate internal processes for issuing annual benefit statements, indicating a systemic problem	All members may have been affected	Action has not been taken to correct the breach and/or identify and tackle its cause to minimise the risk of recurrence and identify other members who may have been affected	It is highly likely that the scheme will be in breach of other legal requirements
Amber	An administrative oversight, indicating variable implementation of internal processes	A small number of members may have been affected	Action has been taken to correct the breach, but not to identify its cause and identify other members who may have been affected	It is possible that the scheme will be in breach of other legal requirements
Green	An isolated incident caused by a one off system error	Only one member appears to have been affected	Action has been taken to correct the breach, identify and tackle its cause to minimise the risk of recurrence and contact the affected member	It is unlikely that the scheme will be in breach of other legal requirements

Internal controls

Example scenario: A DB public service scheme has outsourced all aspects of scheme administration to a third party, including receiving contributions from employers and making payments to the scheme. Some contributions due to the scheme on behalf of employers and members are outstanding.

	Potential investigation outcomes			
	Cause	**Effect**	**Reaction**	**Wider implications**
Red	The administrator is failing to monitor that contributions are paid to them in time for them to make the payment to the scheme in accordance within the legislative timeframes and is therefore not taking action	The scheme is not receiving the employer contributions on or before the due date nor employee contributions within the prescribed period	The administrator has not taken steps to establish and operate adequate and effective internal controls and the scheme manager does not accept responsibility for ensuring that the failure is addressed	It is highly likely that the administrator is not following agreed service level standards and scheme procedures in other areas. The scheme manager is likely to be in breach of other legal requirements such as the requirement to have adequate internal controls
Amber	The administrator has established internal controls to identify late payments of contributions but these are not being operated effectively by all staff at the administrator	The scheme is receiving some but not all of the employer contributions on or before the due date and employee contributions within the prescribed period	The scheme manager has accepted responsibility for ensuring that the failure is addressed, but the progress of the administrator in training their staff is slow	It is possible that the administrator is not following some of the agreed service level standards and scheme procedures in other areas. It is possible that the scheme manager is in breach of other legal requirements
Green	Legitimate late payments have been agreed by the scheme with a particular employer due to exceptional circumstances	The employer is paying the administrator the outstanding payments within the agreed timescale	The scheme has discussed the issue with the employer and is satisfied that the employer is taking appropriate action to ensure future payments are paid on time	It is unlikely that the employer is failing to adhere to other scheme processes which would cause the scheme manager to be in breach of legal requirements

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Agenda Item No: **16**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

23 September 2015

Report Title	Pensions administration report from 1 April to 30 June 2015	
Originating service	Pension Services	
Accountable employee(s)	Simon Taylor Tel Email	Head of Pensions Administration 01902 554276 Simon.taylor2@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendations for action or decision:

The Committee is recommended to:

1. Approve the write-offs detailed in section 8.0 of this report.

Recommendations for noting:

The Committee is asked to note:

1. The applications approved by the Strategic Director of Pensions and the Chair of Pensions Committee for admission to the West Midlands Pension Fund.

2. The pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund).

3. Progress made with employer annual returns, the provision of annual benefit statements and the associated breach report to the Pensions Regulator (tPR).

4. Future activity with regards to data quality and pensions taxation.

1. Purpose

1.1 To inform Committee of the work undertaken by the pensions administration service during the period 1 April 2015 – 30 June 2015 for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Association Pension Fund (the WMITA Fund).

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 Membership movement – Main Fund

3.1.1 The number of scheme members in the Fund in all three categories stands at 280,991 with an overall increase since 31 March 2015 of 3,433. Of the active membership of 105,852 - 50% are full-time and 50% 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 Membership movement – WMITA Fund

3.2.1 The number of scheme members in the WMITA Fund in all three categories stood at 5,156 on 30 June 2015, 10% are active members, 17% are deferred and the largest group are pensioner members at 73% of the total membership. Detailed below is the current information showing movements between 31 March 2015 and 30 June 2015.

	Membership as at 31st March 2015			Movements during the period			Membership as at 30th June 2015		
	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total
Active Members	518	0	518	-8	0	-8	510	0	510
Deferred Members	865	22	887	-23	-2	-25	842	20	862
Pensioner Members	3,659	116	3,775	9	0	9	3,668	116	3,784
Total Members	**5,042**	**138**	**5,180**	**-22**	**-2**	**-24**	**5,020**	**136**	**5,156**

3.3 **Workflow statistics – Main Fund**

3.3.1 The process analysis statistics (Appendix B) show details of overall workflow within the Pensions Administration Service during the period 1 April 2015 – 30 June 2015

3.3.2 During the period covered by this report 38,195 administrative processes were commenced and 34,604 completed. On 30 June 2015 there were 12,613 items of work outstanding. Of this 3,461 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, 9,052 processes are now either proceeding to the next stage of the process or through to final completion.

3.3.3 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).

3.3.4 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 been processing new joiners by a bulk data import process. All employers went live using this service from 1 September 2014 which has released further capacity for other work processing. As a result, the joiner/rejoiner figures shown in appendix C appear to be low volume, but this is because this work is now processed via BDI and therefore not represented in these statistics.

3.4 **Workflow statistics – WMITA Fund**

3.4.1 During the period covered by this report 682 administrative processes were commenced and 619 completed. On 30 June 2015 there were 158 items of work outstanding.

3.5 **Employer membership data**

3.5.1 The Main Fund continues to see an increase in employer membership due mainly to the establishment of academies and outsourced local government contracts, with 15 new organisations being admitted to the Main Fund during the period 1 April 2015 – 30 June 2015. The current number of employers as at 30 June 2015 is 486. The level of ongoing work being processed at the end of the period is as follows:-

- 40 admission agreements
- 54 academies
- 15 employer terminations

3.6 **Customer services**

3.6.1 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 achieving our Key Performance Indicator (KPI) of 85% or above.

3.6.2 Customer Service telephone call enquiries and emails have peaked during May due to a number of factors such as the issue of a disclosure mailing, an increase in web portal activity and the issue of P60 details.

3.6.3 With regards to the pension fund enquiry emails received, some of these are responded to immediately by the Customer Services team as they are general enquiries or web portal queries. Some emails relate to cases that are processed by the Operational or Payroll teams, such as ongoing transfers, retirement cases, refund calculations in progress etc. and those either start a new process on the UPM administrative system or are added to an existing process.

3.6.4 Overall items scanned are slightly lower than in the previous year. This reflects the move to processing some work via bulk data 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 this objective. We continue to scan microfiches onto UPM to ensure that the microfiche information is available for work to be processed efficiently and accurately. (Appendix E)

4. Internal Dispute Resolution Procedure (IDRP) casework

4.1 Over the 2015/2016 financial year to date two cases have been referred for the Main Fund under stage 1 of IDRP. Both of these cases have been dismissed and related to the following pension issues:

- Timescale of calculating retirement and AVC benefits
- Incorrect transfer quote provided due to a technical issue

4.2 Five cases have been received for stage 2 investigation for the Main Fund. Two of these cases were referred back to the employer to reconsider the stage 1 decision, one case is in progress, and two cases have been dismissed.

4.3 The two cases dismissed related to the following pension issues:

- Incorrect pay figure used to calculate the estimate provided by the employer.
- Exercise of employer discretion on the early payment of deferred benefits from age 55.

4.4 So far in the 2015/2016 financial year no cases have been received where a WMITA member is raising an internal dispute resolution procedure.

5. Death grant

5.1 In this financial year four cases in respect of the Main Fund have been referred to the Legal Department for consideration. Two cases are on-going and the other two cases have successfully been resolved. No cases have been referred to the Legal Department in relation to the WMITA Fund in this financial year.

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 Main 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 of Pensions Committee.

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 and the Chair of Pensions Committee.

Employer name	Guarantee Status (Agreement)	No of employees (Scheme members) Agreement type	Status
ABM Catering (John Shelton Community Primary)	Coventry City Council	2(2) Closed	Approved
ABM Catering (Lodge Farm Junior Infants)	Walsall Metropolitan Borough Council	4(4) Closed	Approved
Alliance in Partnership (Coventry Cluster)	Coventry City Council	11(11) Closed	Approved
Alliance in Partnership (King Edward VI Sheldon Heath)	King Edward VI Sheldon Heath Academy	7(7) Closed	Approved
Alliance in Partnership (Brownhills)	Walsall Metropolitan Borough Council	2(2) Closed	Approved
Alliance in Partnership (Harborne Primary)	Birmingham City Council	6(6) Closed	Approved
Aspens Services Ltd (South Wolverhampton and Bilston Academy)	City of Wolverhampton Academies Trust	5(5) Closed	Approved
Aspens Services Ltd (Ark Kings Academy)	Ark Schools	2(2) Closed	Approved
Birmingham Community Leisure Trust (South West contract)	Birmingham City Council	71(71) Closed	Approved
Birmingham Community Leisure Trust (North East contract)	Birmingham City Council	169(169) Closed	Approved
CRI	Birmingham City Council	13(13) Closed	Approved
NSL Limited Parking Services (BCC)	Birmingham City Council	6(6) Closed	Approved
Regent Office Care Ltd (Ormiston Shelfield Academy)	Ormiston Academies	16(16) Closed	Approved
Superclean Services Ltd (Finham)	Finham Park School	7(7) Closed	Approved

7. Pensions in payment

7.1 Pensions in payment – Main Fund

The gross annual value of pensions in payment for the Main Fund to June 2015 was £427.4m, of which £17.9m (£8.7m for pensions increase and £9.2m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.

7.2 Monthly payroll details for the Main Fund were:

Month	Number	Value £
April 2015	70,295	29,226,772.44
May 2015	70,398	29,445,435.29
June 2015	76,992	30,313,689.69

The June figure includes pensioners paid on a quarterly basis, but not those paid on a yearly basis.

7.3 Pensions in payment – WMITA Fund

The gross annual value of pensions in payment for the WMITA Fund to June 2015 was £24.6m, of which £8,976 for added year's compensation was recovered from employing authorities and other bodies as the expenditure was incurred.

7.4 Monthly payroll details for the WMITA Fund were:

Month	Number	Value £
April 2015	3,714	1,786,096.57
May 2015	3,715	1,789,575.24
June 2015	3,772	1,814,273.64

The June figure includes pensioners paid on a quarterly basis, but not those paid on a yearly basis.

8. Write-off policy decisions

8.1 Write-off analysis

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

	Main Fund		WMITA Fund	
Individual Value	**Number**	**Total**	**Number**	**Total**
Less than £100	6	331.99	0	0.00
£100 - £500	16	3,425.19	0	0.00
Over £500	7	9,074.28	1	933.14
TOTAL	**29**	**12,831.46**	**1**	**933.14**

8.2 Write-on analysis – Main Fund

	Main Fund		WMITA Fund	
Individual Value	**Number**	**Total**	**Number**	**Total**
Less than £100	14	614.87	0	0
£100 - £500	3	389.84	0	0
Over £500	0	0.00	0	0
TOTAL	**17**	**1,004.71**	**0**	**0**

9. Communications & marketing activity

9.1 Presentations

9.1.1 During these three months 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. The emphasis during this reporting period has been to continue to encourage members to sign up to Web Portal in order to view their details, run pension calculations and view their annual benefits statement, as well as supporting our members who are at risk of redundancy. A total of 21 presentations were delivered to 298 attendees.

9.1.2 The feedback from our presentations was 83% of the members rated them as excellent and 17% as good.

9.1.3 The presentations were held at 21 different employers, including the district councils, universities, schools/academies and other admitted bodies.

9.1.4 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 241 members on a one to one basis.

9.2 Web Portal

9.2.1 Work is continuing to increase awareness of the web portal facility for members and employers. There are currently over 23,000 members registered to use the web-portal facility with over 13,500 of those having been authenticated. A breakdown of those registered and authenticated between the Main Fund and WMITA is provided below:

<u>Registered and authenticated</u>
WMITA - 383
WMPF – 13,495

9.2.2 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. In addition, posters promoting the service have been provided to the largest 25 employers (and to employers that request them), and the Fund has promoted the service via Trade Union representatives on the Local Pensions Board.

10. Employer annual returns and annual benefit statements

10.1 Deferred Benefit Statements
The Fund successfully managed to produce the vast majority of deferred member statements (98%), and these were made available in July 2015.

10.2 Active members – Annual Returns/Active Benefit Statements

10.3 During the last week of February and the first week of March 2015, annual return requests were sent to 474 participating employers, requesting the completed information by 30 April 2015 for active members.

10.4 By 30 April 2015, 154 of the 474 returns were received equating to 32% and half the percentage of the previous year (by 31 May 2015, 394 were received).

10.5 Upon receipt of the returns, each one was reviewed by the Fund with a view to uploading the information onto the UPM administration system, however a number of returns had to be returned to employers as the data was of insufficient quality to pass initial validation. The main issues in failing the initial validation were as follows:

- Use of commas and % signs in the financial fields
- Incorrect start dates for members
- Mandatory fields not being completed
- Membership number field being left blank
- Old template being used
- Dates being sent in American format

10.6 The late receipt of annual return information by Fund employers has had a consequential effect on the ability of the Fund to produce annual benefit statements for 2014/15 for active members. The Fund appreciates that the complexity of the new 2014 scheme and limits on employers' resources, as well as constraints of their own payroll systems, have contributed to these delays. In addition, the late issue of regulations and guidance required to update pension administration systems and the late delivery by the administration software provider of the functionality required to process new annual data returns has contributed to the issues faced by the Fund.

10.7 As a result of the issues outlined above, the Fund has been unable to provide annual benefit statements for its active members by the statutory deadline of 31 August 2015 and has therefore taken the decision to formally report this as a breach to tPR. In response to the Fund's report, tPR have confirmed they will not take action in relation to the delay, but would like to be informed if the issuing of active benefit statements is delayed beyond 31 October 2015.

10.8 Active member benefit statements will be issued in two batches – the first (expected to cover around 50% of members) by 30 September 2015 and the second (covering the remaining 50% of members) is expected to be completed by 31 October 2015.

10.9 In line with our Pension Administration Strategy, the Fund will be passing on the costs associated with the additional work required as a direct result of poor employer performance. The Fund is also writing to our software provider to formally document the shortcomings in their service and how this has contributed to the delay.

10.10 The Fund has written to all employers to confirm when they and their members can expect their statements to be available and a message will be placed on our website.

10.11 Looking to the future, the Fund will follow-up with employers and feedback experience from the 2015 exercise so that the process and data exchange can be refined for next year, ahead of the 2016 actuarial valuation. The Fund is engaging with employers around the possibility of moving to monthly returns and with a view to conducting a pilot exercise with major employers by April 2016. In addition, the Pensions Administration Strategy (PAS) currently outlines fines which might be levied against employers as a penalty for delayed or poor quality provision of data and these clauses will be reviewed so as to ensure they are fit for purpose. Aligned to the PAS, the Fund is proposing to name 'underperforming' employers to raise awareness of the issues being faced.

11. Future activity

11.1 As covered in more detail in the LGPS Reform Update 2015 report, following completion of the 2015 annual return and benefit statement exercise, the Fund will review membership records to identify any members potentially affected by the summer budget changes in pensions taxation. The Fund has begun engaging with employers on the matter and is in the process of implementing a structured approach for liaising with effected members. In addition, the Fund's member relationship officers are already talking to employees about the change and are available to discuss the changes with individuals and small groups, as required.

11.2 The Fund has continually been engaging with employers on the quality of data provided, particularly with a view to the closer scrutiny placed upon this area by tPR with effect from April 2015. In December 2014, the Fund wrote to each of the district councils outlining certain data sets where information was outstanding. Great strides have been made by employers in providing information to improve the quality of data held on the Funds records, however there still remains significant scope for further improvement. With a view to the experience of the 2014/15 annual returns process, and with data quality in general, the Fund is holding meetings with each of the district councils to discuss the quality and exchange of data so as to improve the situation going forward. This programme will be expanded to include other participating employers where appropriate.

11.3 In line with tPR code of practice requirements for data record keeping the Fund has analysed its “Common” data sets with a pass rate of 98% and above for each. As such, the Fund is satisfied that with some further improvement we will achieve the requirements set out by tPR. In addition, the Fund’s “Conditional” data sets are under review and we will report to Committee in more detail on this in December.

12. Financial implications

12.1 The report contains financial information which should be noted.

12.2 The production of annual benefit statements for active members in two runs will have associated cost implications for the Fund. The recovery of these costs via participating employers is covered in more detail in section 10.9.

12.3 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.

13. Legal implications

13.1 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.

14. Equalities implications

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

15. Environmental implications

15.1 The report contains no direct environmental implications.

16. Human resources implications

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

17. Corporate landlord implications

17.1 The report contains no direct corporate landlord implications.

18. Schedule of background papers

18.1 None.

19. Schedule of appendices

19.1 Appendix A: Overall membership numbers

19.2 Appendix B: Process analysis

19.3 Appendix C: Detailed process analysis

19.4 Appendix D: Customer service statistics

19.5 Appendix E: Data quality statistics

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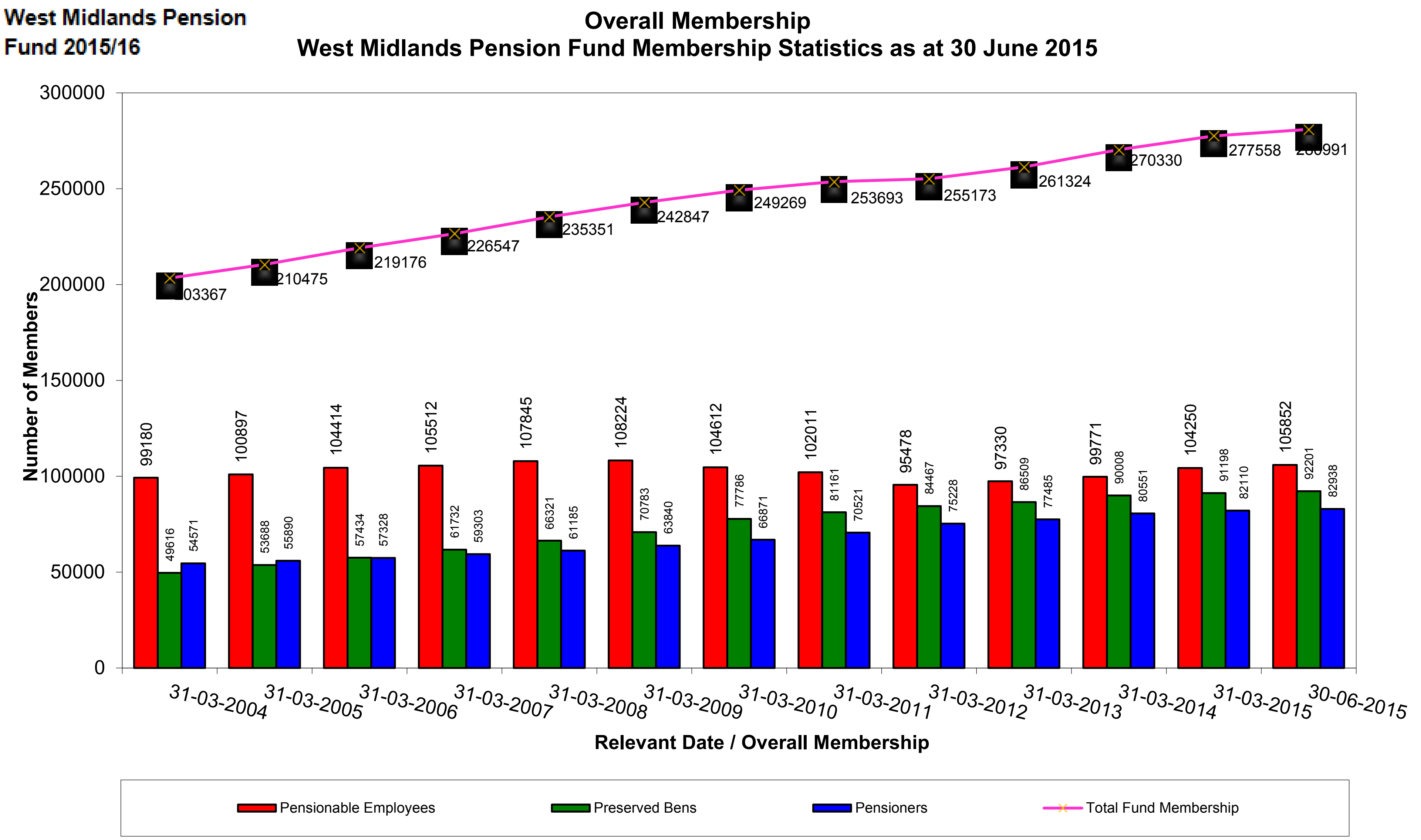
Appendix A



West Midlands Pension Fund 2015/16
Overall Membership
West Midlands Pension Fund Membership Statistics as at 30 June 2015
Number of Members
300000
250000
200000
150000
100000
50000
0
203367
210475
219176
226547
235351
242847
249269
253693
255173
261324
270330
277558
99180
49616
54571
100897
53688
55890
104414
57434
57328
105512
61732
59303
107845
66321
61185
108224
70783
63840
104612
77786
66871
102011
81161
70521
95478
84467
75228
97330
86509
77485
99771
90008
80551
104250
91198
82110
105852
92201
82938
31-03-2004
31-03-2005
31-03-2006
31-03-2007
31-03-2008
31-03-2009
31-03-2010
31-03-2011
31-03-2012
31-03-2013
31-03-2014
31-03-2015
30-06-2015
Relevant Date / Overall Membership
Pensionable Employees
Preserved Bens
Pensioners
Total Fund Membership

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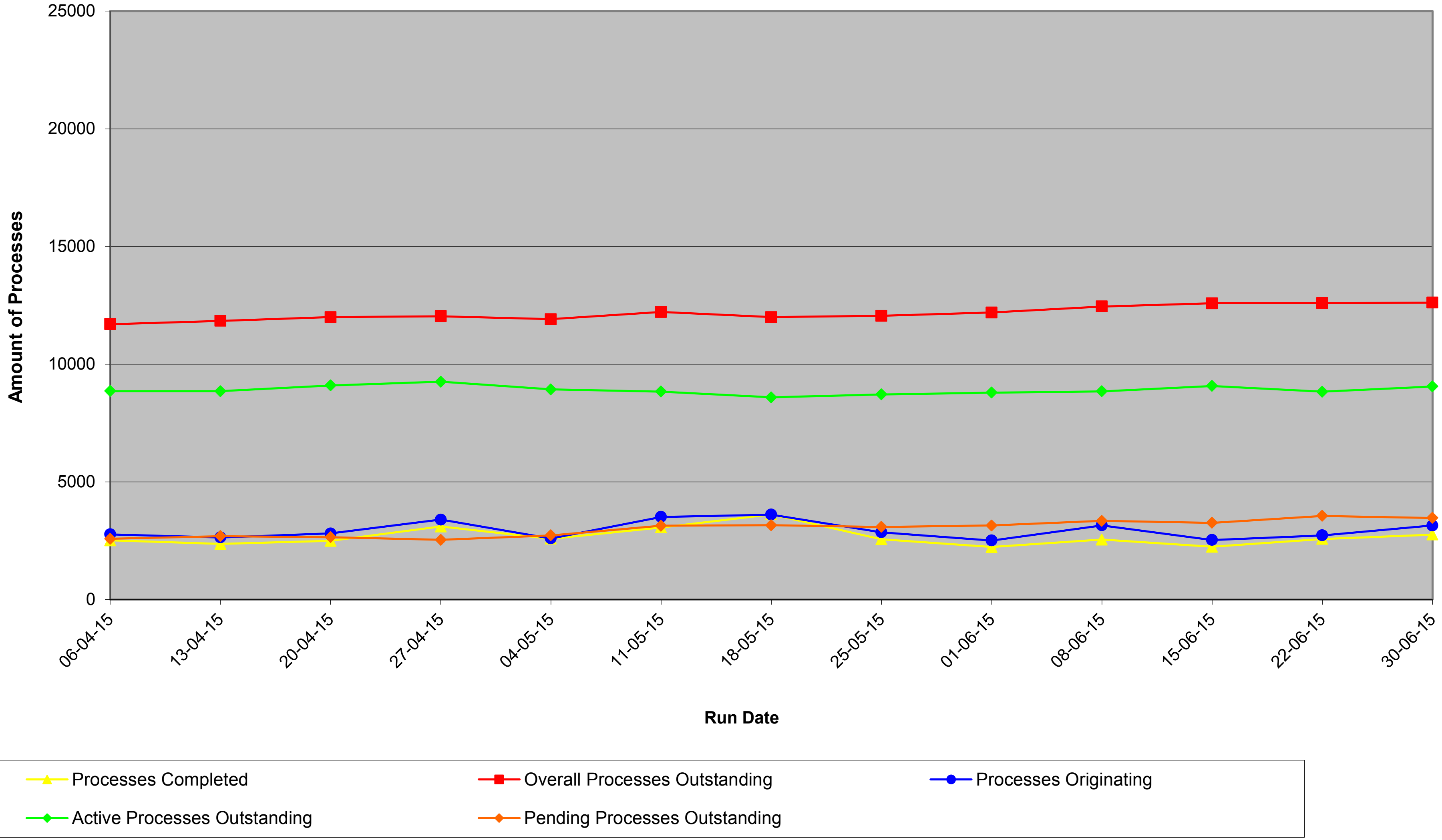
Appendix B

West Midlands Pension Fund 2015/16 **Process Analysis**



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WEST MIDLANDS PENSION FUND

2015/16

Pension Committee Statistical Report
Detailed Process Analysis

Appendix C

	2010/11	2011/12	2012/13	2013/14	2014/15	April	May	June	YTD 2015/16

Active & Deferred members

Process type	2010/11	2011/12	2012/13	2013/14	2014/15	April	May	June	YTD 2015/16
Joiners and Rejoiners	8,763	6,403	11,138	13,558	1,654	0	1	0	1
Changes in circumstances eg change in hours	18,759	15,303	12,385	11,273	6,391	415	471	348	1,234
Deferments	5,939	7,818	5,741	6,728	5,664	675	992	536	2,203
Active Retirements (Employer retirements)	3,317	3,950	2,475	2,279	2,351	230	194	202	626
Deferred Retirements	3,332	2,970	2,971	2,726	2,301	236	244	584	1,064
Deaths of members	295	262	287	285	230	28	33	32	93

Pensioner members

Process type	2010/11	2011/12	2012/13	2013/14	2014/15	April	May	June	YTD 2015/16
Changes in circumstances:-									
Data eg Passwords, NI Numbers	1,310	1,804	1,865	2,017	2,604	294	194	327	815
Changes of Address	2,420	2,681	2,131	1,732	1,733	221	178	150	549
Changes of Bank	2,927	2,531	2,783	3,420	3,281	270	186	207	663
Deaths of pensioners	2,085	2,145	2,101	2,546	2,454	22	10	11	43

Payroll						Monthly	Monthly	Quarterly	
Actual number paid	792,724	837,189	870,804	895,018	913,864	70,295	70,398	76,992	217,685

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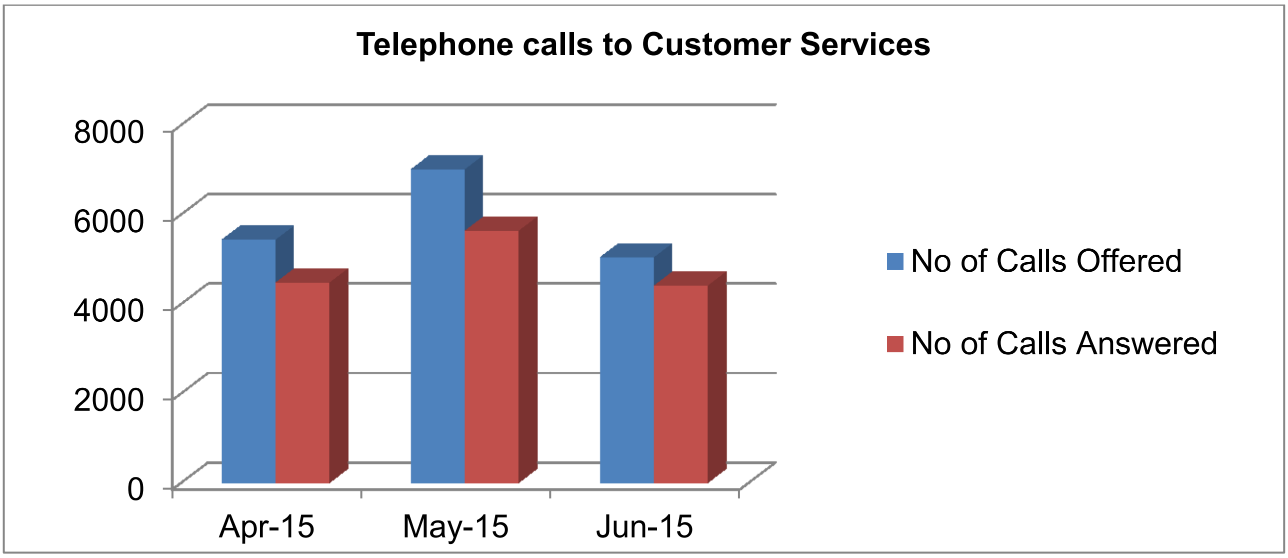
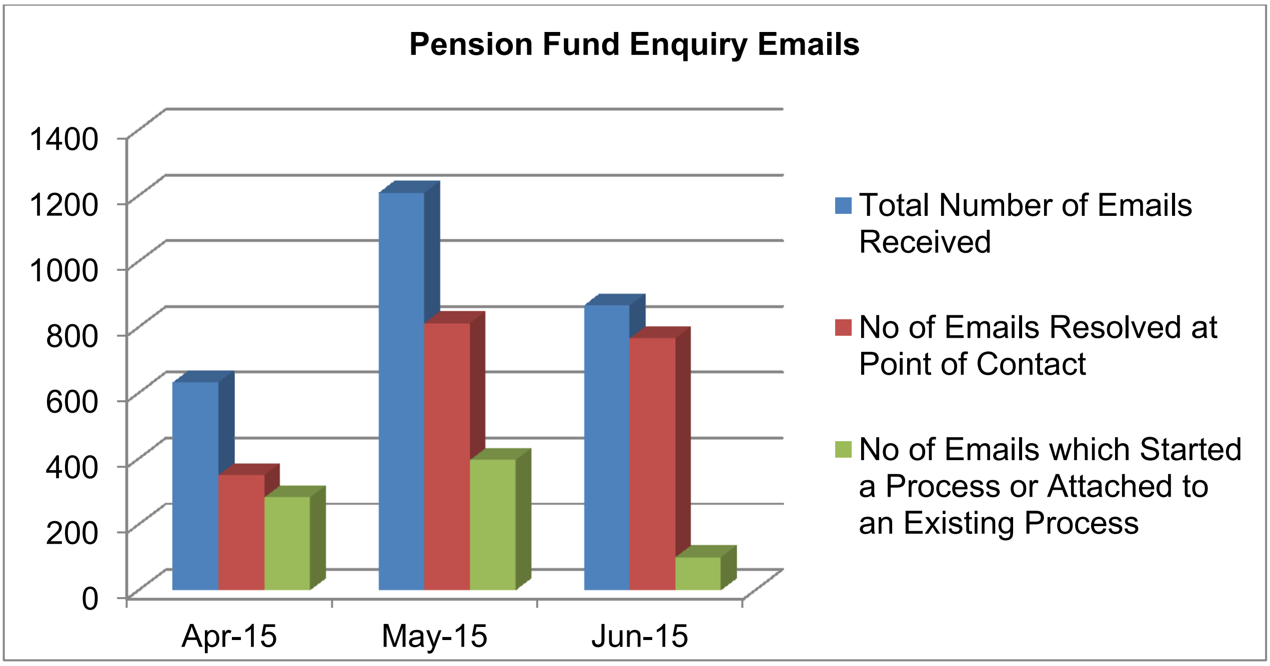
Customer Services Statistics
1 April 2015 to 30 June 2015



	April 2015	May 2015	June 2015
No of Calls Offered	5439	7012	5045
No of Calls Answered	4484	5441	4415
Answer Rate	83%	78%	88%
Calls answered at first point of contact	99.2%	98.7%	98.8%



	April 2015	May 2015	June 2015
Total Number of Emails received	632	1208	866
Number of Emails resolved at point of contact	350	812	766
Number of Emails which started a process or attached to an existing process	282	396	100

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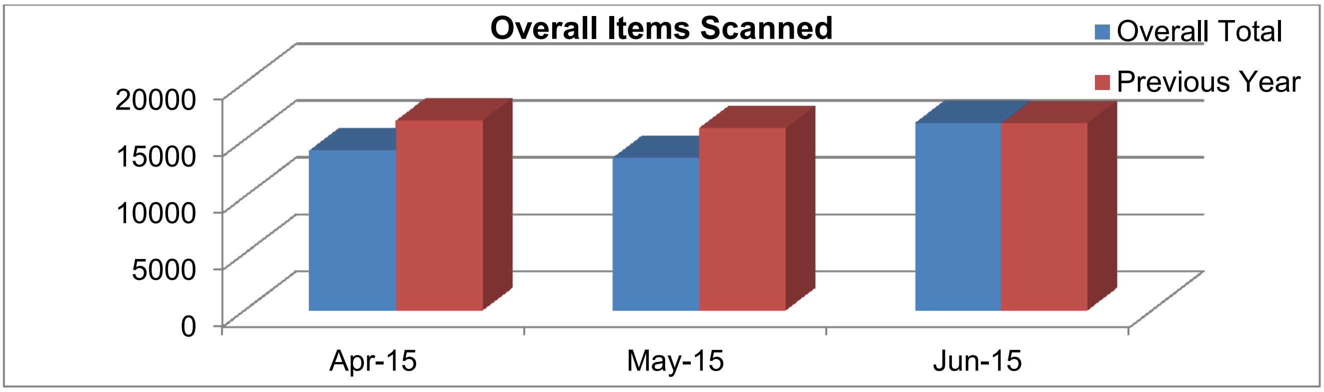
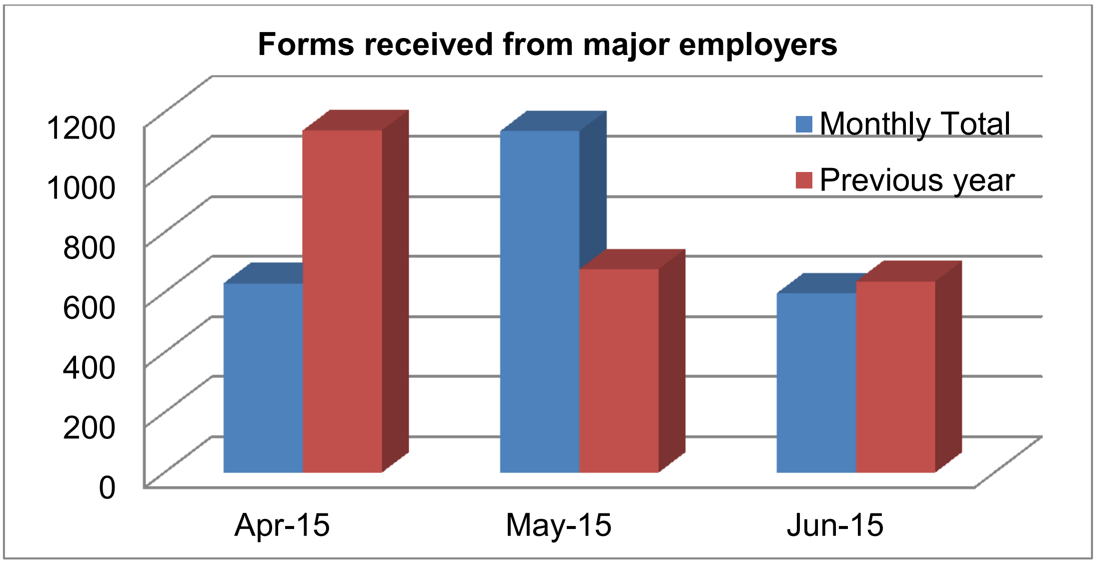
Data Quality Statistics
1 April 2015 – 30 June 2015



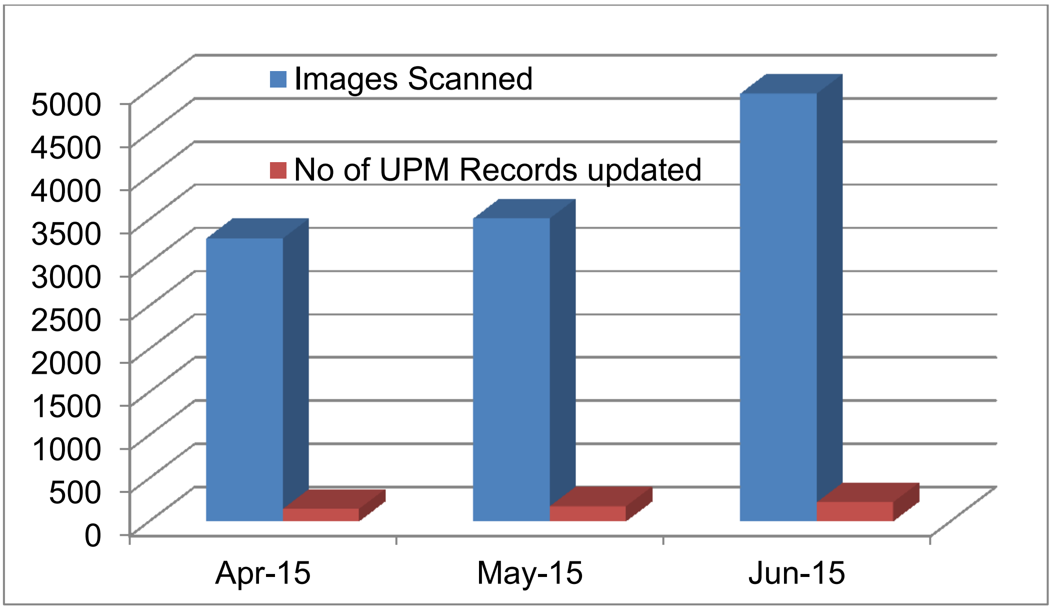
	Overall Total	Previous Year
April 2015	14071	16687
May 2015	13395	16014
June 2015	16486	16447

	Overall Scanned	Indexing errors	% error rate
April 2015	14071	15	0.11
May 2015	13395	19	0.14
June 2015	16486	19	0.11



	Monthly Total	Previous year
April 2015	630	1139
May 2015	1137	677
June 2015	597	636

Microfiche Statistics



	Images Scanned	No of UPM Records updated
April 2015	3279	144
May 2015	3510	174
June 2015	4955	221

The substantial difference between the number of images scanned and the number of UPM records updated is because the former represents the number of pages of documents scanned, whereas the latter is the number of member records that have been updated with the documents (there may be several documents on each member record).

Agenda Item No: **17**

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

23 September 2015

Report title	Responsible Investment Activities	
Originating service	Pension Services	
Accountable employee(s)	Leanne Clements Tel Email	Responsible Investment Officer 01902 552086 Leanne.clements@wolverhampton.gov.uk
Report to be/has been considered by	Geik Drever Tel Email	Strategic Director of Pensions 01902 552020 Geik.drever@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and Local Authority Pension Fund Forum's (LAPFF's) engagement activity for the three months ending 30 June 2015, including Appendix 1.

2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website: http://www.lapfforum.org/Publications/engagement

3. Update on the Israeli-Palestinian related research and engagement program (Sections 3.5, 3.6).

4. The Fossil Fuel Divestment Campaign being launched in September 2015 (Sections 3.7-3.9).

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 April to 30 June 2015.

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 Responsible Investment Activities

Voting Globally

3.1 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on our behalf. However, the Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.

3.2 The voting activity for the quarter across markets and issues can be found in Appendix 1. During the period the Fund voted at a total of 1,686 company meetings –206 UK, 350 European, 481 North American, 419 Japanese, 164 Asia (excluding Japan), and the remaining 66 meetings predominantly located in Australia/New Zealand and South America. During this period there were 14 meetings where the Fund supported all the resolutions put forward by companies. Approximately 33.5% of the resolutions were not supported by the Fund.

*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".

Engagement through Partnerships

3.3 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 65 public sector pension funds in the UK with combined assets of over £165 billion. LAPFF members regularly meet together to discuss environmental, social, and governance (ESG) issues and ways to promote high standards of corporate behaviour at investee companies.

3.4 A summary of LAPFF's engagement activites for the quarter are provided alongside the voting activity report in Appendix 1. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website: http://www.lapfforum.org/Publications/engagement.

3.5 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 template letters from a number of members with regards to this campaign, to which the Fund has responded on the Chair's behalf highlighting our policy on ethical exclusions.

3.6 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 conduct some additional research and engagement into this issue. These engagement meetings are on-going during the months of August and September 2015 respectively, and thus a verbal update on the engagement outcomes and any potential further recommendations will be provided to the Pensions Committee in September 2015.

Fossil Free Divestment Campaign

3.7 In September 2015, campaign group Fossil Free UK released details of the fossil fuel holdings of every local authority pension fund in the UK to kick-start a divestment campaign targeting the sector. The information has been gathered by volunteers through Freedom of Information (FOI) requests and is intended to reveal how much of the £225bn collectively managed by local authority pension schemes is invested in fossil fuels. The aim of the campaign is to pressurize funds into divesting from fossil fuel companies as a way to mitigate climate change risk.

3.8 The Fund believes that a rapid, reactive response to this potential long term risk, for example divesting from all fossil fuel stocks, could mean severe losses of returns likely over a sustained period of time. As owners of long term capital, the Fund feels that it must allow sufficient time for companies to respond to these rapidly changing regulatory and market environments. A balanced and prudent approach is therefore required. As such, at this time the Fund prefers to be part of the conversation to influence the discussion through a robust active ownership approach. This position of "engagement versus exclusion" is one of the Fund's beliefs and guiding principles, as outlined in its Responsible Investment Framework[1].

3.9 In terms of implementation, the Fund commits to the following activities to address climate change impacts in its portfolio:

- Encouraging improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives, for example via our partnership with

[1] http://www.wmpfonline.com/CHttpHandler.ashx?id=7181&p=0

the LAPFF and the Aiming for A' investor coalition, the Carbon Disclosure Project (CDP), and the Institutional Investors Group on Climate Change (IIGCC);

- Supporting – and where applicable co-file – reasonable shareholder proposals to disclose/justify a company's approach to climate change risk such as the 2015 BP and Shell shareholder resolutions;

- Reviewing its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;

- Contributing to public policy with regard to climate change as it relates to investment considerations through participation with organisations such as the IIGCC. In support of this aim, the Fund is a signatory to the Global Investor Statement on Climate Change;

- Increasing awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and,

- Keeping up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes.

4.0 Financial implications

4.1 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.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

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

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

- LAPFF Quarterly Engagement Report April to June 2015:
  http://www.lapfforum.org/Publications/engagement

11.0 Schedule of Appendices

- Appendix 1 (Voting and Engagement Activity)

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Appendix 1

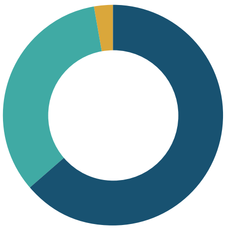
April to June 2015

West Midlands Pension Fund

Voting report

Over the last quarter, we voted at 1,686 meetings (24,064 resolutions). At 1,672 of those meetings, we opposed or abstained one or more resolutions. We supported management on all resolutions at 14 meetings.

Total
We voted at 1,686 meetings (24,064 resolutions) over the quarter.

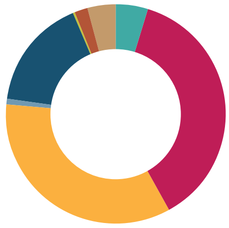


Total resolutions voted in favour	**64.0%**
Resolutions where voted against or abstained	**33.5%**
Non-voting	**2.5%**

UK
We voted at 206 meetings (3,615 resolutions) over the quarter.

Total resolutions voted in favour	**76.0%**
Resolutions where voted against or abstained	**24.0%**

UK: votes against and abstensions by category



Remuneration	**5.0%**
Annual report	**37.1%**
Directors	**34.5%**
Articles of association	**0.8%**
Auditors	**16.3%**
Corporate actions	**0.3%**
Corporate donations	**2.0%**
Share issue/repurchase	**4.0%**

North America
We voted at 481 meetings (6,077 resolutions) over the quarter.

Total resolutions voted in favour	**48.0%**
Resolutions where voted against or abstained	**52.0%**

Europe
We voted at 350 meetings (6,436 resolutions) over the quarter.

Total resolutions voted in favour	**59.5%**
Resolutions where voted against or abstained	**30.5%**
Non-voting	**10.0%**

Japan
We voted at 419 meetings (5,810 resolutions) over the quarter.

Total resolutions voted in favour	**82.0%**
Resolutions where voted against or abstained	**18.0%**

Asia (excluding Japan)
We voted at 164 meetings (1,489 resolutions) over the quarter.

Total resolutions voted in favour	**53.0%**
Resolutions where voted against or abstained	**46.9%**
Non-voting	**0.1%**

Rest of the World
We voted at 66 meetings (635 resolutions) over the quarter.

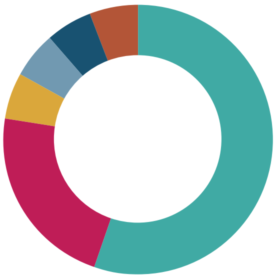
Total resolutions voted in favour	**53.5%**
Resolutions where voted against or abstained	**42.0%**
Non-voting	**4.5%**

West Midlands Pension Fund

Engagement summary

Over the last quarter, the Local Authority Pension Fund Forum (LAPFF) engaged with 15 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 topics



Climate change	**55.56%**
Employment standards	**22.22%**
Remuneration	**5.56%**
Social risk	**5.56%**
Finance and accounting	**5.56%**
Human rights	**5.56%**

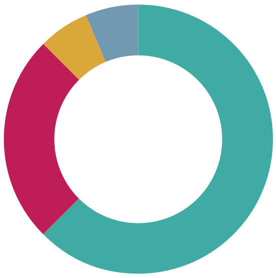
Engagement by domicile

United Kingdom	**57.14%**
United States	**21.43%**
UK/Netherlands	**7.14%**
Norway	**7.14%**
UK/Australia	**7.14%**

Engagement by activities

Alert issued	**31.25%**
Attended AGM	**50.00%**
Meeting	**18.75%**

Engagement by outcomes



Dialogue	**62.50%**
Substantial improvement	**25.00%**
Moderate improvement	**6.25%**
Small improvement	**6.25%**