

27 March 2019

<b>Report title</b>	Governance Update Report	
<b>Originating service</b>	Pension Services	
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## Recommendation for decision:

The Committee is recommended to:

1. Approve the Governance Compliance and Administering Authority Discretion Statements for 2019

## Recommendations for noting:

The Committee is asked to note:

1. The top ten risks for this quarter and their movement
2. The quarterly compliance monitoring
3. The work of the Fund to continue maximising the production of Annual Benefit Statements for members.
4. The ongoing engagement with LGPS Central in further developing the good governance and reporting in line with the Government consultation on investment pooling.
5. The ongoing engagement with the Pensions Regulator in the review of the Fund's Good Governance assessment.
6. The outcome of the AON Hewitt governance review

## 1.0 Purpose

- 1.1 To provide Committee with an update on the work of the Fund in delivering a well governed scheme and to seek approval for the statutory Governance Compliance and Administering Authority Discretion Statements for 2019.

## 2.0 Risk Register

- 2.1 For this quarter the Risk Register contains 56 risks of which 14 have rated as red and are noted on the Funds Top Risk's Register. During the quarter the number of risks which increased in risk was two, ten risks decreased their level of risk and two new risks were added. Movement in those risks is detailed below.

- **Brexit Uncertainty**  
The potential impact on investment markets noting in particular the expectation that asset values and returns could be impacted by increased market volatility for an extended period.

In responding to this challenge, Committee will be aware that the Fund sets a long-term diversified investment strategy incorporating a level of currency hedging.

- **Climate Change risk**  
Noting the continued focus on this topic within the pensions and investment industry and following approval of climate change beliefs by Committee in December 2018, the Fund continues to engage and incorporate analysis in investment due diligence and stewardship, formalising a 4 year risk management strategy for Committee approval under a separate paper of this meeting.
- **Compliance with the CIPFA Annual Report disclosure requirements**  
Committee will be aware that new guidance was issued in February and CIPFA is currently undergoing consultation to extend the reporting requirements of LGPS Funds.
- **Adequate governance framework for investment pooling**  
Committee will be aware that MHCLG recently issued new statutory guidance for investment pooling outlining the governance mechanisms and reporting. As noted at paragraph 4, the Fund has implemented governance controls to ensure it is able to meet this requirement.

- 2.2 A copy of the latest top risks is attached at Appendix A.

### **3.0 Compliance Monitoring**

#### **3.1 Finance and Investments**

##### Late Trades

The Fund continues to monitor late trades for the period of October to December 2018. This quarter the Fund is reporting 59 late trades, this has seen an increase from recent months and the Fund is engaging with its custodian HSBC to understand the increase reported for this quarter. There has been no detriment to the Fund due to the late trades.

##### Contributions

The Finance team continue to engage with employers to ensure contributions are received monthly in line with the requirements of the Actuary's rates and adjustment certificate, Pension Administration Strategy and meeting the expectations on contributions set within guidelines issued by the Pensions Regulator guidelines. The procedures for monthly reconciliation of contributions continues to develop and embed within the employer monthly return process.

During October the Fund received 48 employer contributions (£1,220,803 in value) late after the due date. Finance and employer services continue to work with the employers with a shortfall in employer contribution payment.

##### Fraud Risk Monitoring

The Fund is pleased to report the successful outcome of a pension recovery case against one its members who was incorrectly paid his pension benefits. The matter was settled prior to a formal trial with all monies agreed to be repaid by the member under court order.

Following the recent Ombudsman case involving Northumbria Police and the claim by a member that they had failed to protect them from fraud scams resulting in the loss of a pension following a transfer out, the Fund has received correspondence from a member seeking to make a similar claim. The Fund has taken legal advice on this matter and it has been passed to the Council's insurance team for a response.

The Fund recently became aware of a potential fraud concerning a false bank account in the name of the West Midlands Pension Fund. Action was taken by the Fund's compliance team to liaise with the bank in question. No detriment has been identified.

#### **3.2 Governance**

##### Information Governance

The Fund has received the following Information Governance requests during the period from October to December:

##### Subject Access Requests

Nine requests were received during the period, which is a significant increase compared to previous reporting periods. This increase is attributed to the change in regulation

implemented as a result of GDPR, which enables individuals to request access to their information free of charge and within a shorter timescale than old Data Protection law. The Fund continues to monitor the requests received and all received during the period were responded to within the statutory timescale of one calendar month.

#### Freedom of Information Requests

Two requests were received during the period, both requesting information on Fund Investment Holdings. Both requests were responded to within the statutory timescale of 20 working days.

#### Data Breaches

The Fund has been subject to 12 data breaches this period that have been reported to the City of Wolverhampton Council's Information Governance team. All breaches related to the disclosure of information to unintended recipients and all but one were limited to only one member being affected. None of the breaches were required to be reported to the Information Commissioner.

## **4.0 Policy Review update**

### **4.1 Governance Compliance Statement 2019**

As a statutory public service scheme, the LGPS has a different legal status compared with trust-based schemes in the private sector. Matters of governance in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have ultimate responsibility for its stewardship and management of the Fund.

In compliance with the Local Government Pension Scheme Regulations 1997 (as amended) the West Midlands Pension Fund publishes a written statement each year confirming its governance arrangements outlining the functions and responsibilities of its Pension Committee and Local Pension Board in relation to both the management of the WMPF and WMITA PF.

Following the formation of the LGPS Central investment pool, initial launch of internally managed sub-funds and transfer of Fund employees in April 2018, the Fund undertook a review of its compliance statement, taking into account the governance structures which oversee the investment pooling company, LGPS Central Ltd. A year on from launch the statement has been reviewed to reflect the transition from start-up to delivery of a wider range of products for the nine partner fund customers.

A copy of the Statement is attached at Appendix B for Committee's approval which has been updated to reflect minor changes in the Fund's Governance as well as a refresh to ensure compliance with statutory guidance issued by MHCLG in how the Fund meets the principles set.

## 4.2 Administering Authority Discretions Policy Statement 2019

Under the LGPS Regulations, the Fund is required to formally publish its policy on its 'discretions'. Administering authorities have certain powers which enable them to choose how they will apply the scheme in respect of certain provisions. These are called 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.

The Fund are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion, these are also to be published and kept under review. Within the policy there are circa 50 areas covered, and these include; admission of admission bodies, commutation of small pensions, management of funding strains, for example on members taking unreduced benefits on early retirement.

The Fund published the latest version of its Administering Authority Statement in July 2018 and it is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

As part of the annual review in 2019, a number of changes have been made to the statement, key elements of which are summarised below:

- Renaming of the document to 'Administering Authority Discretion Policy' to enable readers to better understand the content and purpose of the statement
- Bringing it in line with new regulations made during the year, which includes updating wording to reflect the amendments introduced in May 2018 and January 2019
- Including references to written policies and their location on the Fund's website
- Consolidation of discretions detailed in other policies around employer admissions and terminations

The revised policy statement will, subject to Committee approval, be applicable from April 2019, a copy is attached at Appendix C.

## 5.0 **Annual Benefit Statements**

- 5.1 At the committee meeting in December, the Fund reported that 70% of active benefit statements had been produced for Fund members. This quarter the Fund are reporting an increase in production to 83% with work ongoing to maximise production through the individual analysis of member records ahead of 31 March 2019.
- 5.2 In assessing its ability to produce active benefit statements and following engagement with employers, the Fund has determined that out of the total active membership, 88% are eligible to receive an annual benefit statement and work is continuing to assess and rectify errors which may prevent a benefit statement being produced.

5.3 The Fund continues to engage with the Pensions Regulator on the production of its benefit statements following the self-report in September, with the rolling programme for production continuing through to the end of the month.

## **6.0 Development of governance to support investment pooling**

6.1 In the lead up to the creation of LGPS Central Limited, officers from across the 9 Funds worked to develop the legal framework for the company to ensure its compliance with FCA regulatory governance as well as ensuring it fell in line with the expected structure set out in Government guidance. That governance structure was set out in a number of key legal documents, including the Shareholder's Agreement, the Inter Authority Agreement, and various investment management agreements.

6.2 A year on from creation, the Company are now transitioning from being a newly established body to a fully functioning investment management company and as part of that transition, Partner Funds and the Company are proposing to undertake a review of the key legal documents as a matter of good governance, ensuring they reflect developments in regulation and guidance together with changes in adopted working practices.

6.3 Partner Fund Internal Audit functions have joined to form an Internal Audit Working Group building a framework with the Company as part of the required level of assurance around operational controls. The fund would normally receive a standardised AAF 01/06 report detailing the level of controls and assurance in their operations. Due to the Company being in its first year of operation, these frameworks are still being formulated and a full, published AAF 01/06 report continues to be developed with the Company with assurances due to be provided by the end of the financial year.

6.4 The Audit Working Group have scoped a framework that mirrors the requirements and outcomes of an AAF 01/06 report and the Company will be providing the Funds with the required level of assurance aligned to this framework until an externally available AAF 01/06 report is produced by the Company for partner funds.

## **7.0 Engagement with the Pensions Regulator (TPR)**

7.1 Earlier this year the Pensions Regulator published its Corporate Plan 2018 – 2021 in which it set out its new 'clearer, quicker, tougher' approach to driving up standards in the pensions sector. Part of that regime included a recognition by TPR of the need to further develop their knowledge and understanding of Local Government Pension Schemes and a promise to engage more with the public sector.

7.2 In seeking to improve its understanding, the Regulator noted its intention to undertake a range of engagement activities touching all funds during 2018/19, including a review of practices within 10 LGPS Funds as part of a "deep dive" to understand the risks and challenges faced by Funds.

- 7.3 The West Midlands Pension Fund was one of the LGPS Funds selected to participate in the deep dive and officers have undertaken a series of meetings and discussions with the Pension Regulator to share details of our working policies and practices for consideration alongside the expectations set in the Code of Practice (no.14) issued for all Public Sector schemes by the Pensions Regulator in April 2015.
- 7.4 Feedback from the meetings has been positive noting the good work of the Fund and the comprehensive suite of policies and procedures we have in place to ensure the good management of information and our members' benefits. As with all external reviews, there is opportunity to further develop and progress the work we do, but it has been encouraging to note that many of the changes and improvements the Fund is developing (for example, with regard to data management and communication) were recognised as "best practice". To this end, the Fund has agreed to act as a point of reference for other funds on request.
- 7.5 The focused engagement is a positive move from the Pensions Regulator to further their understanding of LGPS Funds and wider comment is expected to be issued to the industry ahead of the summer.

## **8.0 AON Governance Review**

- 8.1 As part of its ongoing Governance Assurance Framework, last year the Fund appointed AON Hewitt to undertake an independent review of our governance and administration processes, ensuring the Fund is meeting and is able to meet its ongoing statutory duty as well as being able to prepare for future challenges through its proactive assessment of forthcoming challenges and service development.
- 8.2 At its meeting in December, Committee received an overview of the initial findings of the report. The full report, informed by feedback from individual Committee and Local Pension Board members through the effectiveness questionnaires completed earlier this year has now been received and further actions to build on performance are being identified.
- 8.3 In assessing the Fund, AON commented that the West Midlands Pension Fund was "sector leading" in its development of a graduate and trainee programme, noting as well that in the scope of training offered and delivered to Committee and Local Pensions Board, the Fund provided an "excellent" example. It has been noted that there has been an increase in training hours achieved by both groups year on year.
- 8.4 In considering the overall governance of the Fund, the report notes that the Fund goes "above and beyond normal practice for LGPS Funds" in the management and annual review of its policies.
- 8.5 In particular, the report highlighted the excellent working relationships between officers and local governing bodies and noted the positive feedback on how Committees were managed by the Chair, providing opportunity for discussion.

8.6 In considering improvements to the Fund's Governance, the report highlights the industry wide concern regarding adequate resource and skills to continue supporting the work of the Fund which the Fund has highlighted as a priority in its Service Plan 2019 – 2024, together with the increasing focus on performance management. In keeping with current discussions on good governance in the LGPS, the report also notes the need for a clear conflict of interest policy outlining how the Fund manages its various stakeholder relationships. The Fund will now work with AON to review the recommendations and develop tangible actions to further enhance Fund governance.

## **9.0 Financial implications**

9.1 The requirement by the Fund to produce annual benefit statements is a statutory obligation, failure to produce benefit statements could result in a fine from the Pensions Regulator.

## **10.0 Legal implications**

10.1 The requirement by the Fund to deliver statutory functions, including annual benefit statements to members, could result in formal action from the Pensions Regulator.

## **11.0 Equalities implications**

11.1 There are no implications

## **12.0 Environmental implications**

12.1 There are no implications

## **12.0 Human resources implications**

12.1 There are no implications

## **13.0 Corporate landlord implications**

13.1 There are no implications

## **14.0 Schedule of background papers**

14.1 None

## **15.0 Appendices**

15.1 Appendix A: Top Risks Register

15.2 Appendix B: Governance Compliance Statement 2019

15.3 Appendix C: Administering Authority Policy Statement 2019