

CITY OF WOLVERHAMPTON COUNCIL	Pensions Board 30 April 2019
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Report title	Governance Report	
Originating service	Pension Services	
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Recommendations for noting:

The Pensions Board 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 updated Governance Compliance Statement and Administering Authority Discretions Policy Statement
5. Feedback from engagement with the Pensions Regulator, together with the outcomes of the Fund's independent governance review
6. Progress in consideration of potential merger of the West Midlands Integrated Transport Authority Pension Fund with the West Midlands Pension Fund.

1.0 Purpose

- 1.1 To provide Board with an update on the work of the Fund in delivering a well governed scheme and to note the amendments to 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, Board will be aware that the Fund sets a long-term diversified investment strategy incorporating a level of currency hedging. Officers are in regular dialogue with advisers and have held additional meetings during the period to discuss the positioning of Fund assets in light of this risk.

- **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 framework which was approved by Committee in March.
- **Compliance with updated Chartered Institute of Public Finance and Accountancy (CIPFA) Annual Report disclosure requirements**
New guidance finalised in March 2019 includes extensive additional reporting requirements in relation to both Fund administration and investment, with substantial disclosures on scheme asset holdings and investment pooling. Officers are collating information which will include disclosures prepared by the LGPS Central pool.
- **Adequate governance framework for investment pooling**
The Ministry of Housing, Communities and Local Government (MHCLG) issued revised draft statutory guidance for investment pooling in January 2019 confirming expectations on Fund Administering Authorities' oversight of appointed pool company operators. The LGPS Central pool is developing a governance and risk framework which is being developed to take on board potential changes in the guidance.

- 2.2 A copy of the latest top risks presented to Pension Committee is attached at Appendix A. This has been developed based on 31 December 2018 information and through the collation and review of risk maps owned by service areas and teams across the Fund.

2.3 The Fund's senior management team review risk controls and those on the horizon on a quarterly basis. On review in February 2019, the following emerging risks were noted: -

- Postponement of the Scheme-wide Cost Management process, with potential implications for changes to Scheme benefits which would have been effective from April 2019
- Potential future implications for Public Sector Pension Schemes, following a ruling on GMP equalisation
- Potential changes to Fund policy and strategy statements following consultations issued on revised draft guidance for investment pooling and New Fair Deal in the LGPS

3.0 Compliance Monitoring

Fraud Risk Monitoring

- 3.1 The Fund is pleased to report the successful outcome of a pension recovery case against one of 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.
- 3.2 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.
- 3.3 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.

Governance

- 3.4 Information Governance -The Fund has received the following Information Governance requests during the period from October to December:
- 3.5 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 General Data Protection Regulation (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.

- 3.6 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.
- 3.7 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

Governance Compliance Statement 2019

- 4.1 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.
- 4.2 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 West Midland Pension Fund (WMPF) and West Midland Integrated Transport Authority Pension Fund (WMITA PF).
- 4.3 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.
- 4.4 A copy of the Statement adopted by Committee at its March meeting is attached at Appendix B 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.

Administering Authority Discretions Policy Statement 2019

- 4.5 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.

- 4.6 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.
- 4.7 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.
- 4.8 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 is applicable from April 2019 following Committee's adoption at its March meeting, a copy is attached at Appendix C.

5.0 Annual Benefit Statements

- 5.1 Board will be aware that the Fund implemented a rolling programme to maximise the production of 2018 active benefit statements. Following the final run in the programme, the Fund has confirmed that it was able to produce 85% of eligible ABS (increasing from 52% issued at the statutory deadline date of 31 August 2018).
- 5.2 In assessing its ability to produce active benefit statements, the Fund identified that the maximum level of benefit statements it was able to produce was 88% - c12,000 of active member records had missing earning and contribution information with a number being confirmed by employers as having left employment and membership of the Fund. Progress in confirming the status of all these members with employers continues and work is continuing to assess the final 2-3% of cases in preparation for production of benefit statements in 2019.

6.0 Engagement with the Pensions Regulator (TPR)

- 6.1 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.
- 6.2 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.
- 6.3 The West Midlands Pension Fund was one of the LGPS Funds randomly 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.
- 6.4 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.
- 6.5 The focused engagement is a positive move from the Pensions Regulator to further their understanding of LGPS Funds and we understand that engagement continues with a number of other LGPS and other public sector pension funds. Once completed, the Regulator is expected to issue an outcome report to the industry, noting areas considered good practice.

7.0 AON Governance Review

- 7.1 As part of its ongoing Governance Assurance Framework, last year the Fund appointed independent consultancy AON to undertake a 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.
- 7.2 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.

- 7.3 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.
- 7.4 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.
- 7.5 In particular, the report highlighted the excellent working relationships between officers and local governing bodies including the Local Pension Board. It also recognised the “multi layered approach the Fund takes to business planning” including the management of risks and the measure of success through performance monitoring.
- 7.6 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.

8.0 West Midlands Integrated Transport Authority Pension Fund (WMITA PF)

- 8.1 Following dialogue with key stakeholders and receipt of legal and actuarial advice, a draft application for merger with the West Midlands Pension Fund was submitted to MHCLG at the end of January 2019. Initial feedback from MHCLG and Government Actuary Department (GAD) has confirmed that the proposal, as drafted, would be an appropriate remedial step to address the requirements and concerns raised about the WMITA PF in the Section 13 report published in September 2018.
- 8.2 Work is ongoing to finalise the formal application, ahead of statutory consultation. Pensions Committee reviewed at its meeting in March 2019, the key terms and outcomes of the proposal. Subject to receiving assurance that the final proposal meets the criteria set in September 2018, the application will be finalised in consultation with the Chair of Pensions Committee.

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

13.0 Human resources implications

13.1 There are no implications

14.0 Corporate landlord implications

14.1 There are no implications

15.0 Schedule of background papers

15.1 None

16.0 Schedule of Appendices

16.1 Appendix A: Top Risks Register

16.2 Appendix B: Governance Compliance Statement 2019

16.3 Appendix C: Administering Authority Discretions Policy Statement 2019