

Pensions Committee

19 June 2019

Report title	Governance Update Report	
Originating service	Pension Services	
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Recommendation for decision:

The Committee is recommended to:

1. Approve the Training Policy developed for members of the Fund's governing bodies.

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. Updates on the current regulatory environment within the LGPS
4. Completion of the Fund's voluntary engagement with the Pensions Regulator, assisting development of knowledge and understanding of governance in practice for the LGPS
5. The training hours of the Pension Committee due to be published in the Fund's Annual report and accounts.

1.0 Purpose

- 1.1 To provide Committee with an update on the work of the Fund to deliver a well governed scheme and to note the current regulatory environment in which the Fund operates.

2.0 Pension Committee Terms of Reference

- 2.1 The West Midlands Pension Fund believes a well governed scheme is led from the top, by its governing bodies and decision makers. To support the members of those bodies in their roles, equipping them with the knowledge and understanding of relevant issues, the Fund has adopted a formal training policy which details the minimum requirements expected of Pension Committee to support and enable policy decision and oversight of implementation, where delegated.
- 2.2 While there is no formal statutory requirement for Pension Committee members to undertake training (Local Pension Boards do have a legal duty to complete 22 hours training), the Fund complies with the expectations of the Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework and builds its formal training programme around those topics highlighted as being of relevance to Local Government Pension Scheme decision making bodies. Recognising the importance of training in the developing landscape of the Scheme, at its meeting in March 2019, the Committee agreed that training should be added to the role of Pensions Committee within the Fund's Governance Compliance Statement.
- 2.3 The Fund reviews its training policy each year to ensure it remains compliant with best practice and delivers a comprehensive suite of opportunities for the Committee (and the Local Board) to develop knowledge and understanding.
- 2.4 This year, the Fund has reviewed the policy and considered the experience (in terms of years involved in the Fund or similar pensions governing bodies) of each member. The policy has been reviewed to reflect the variable experience of our Pension Committee and Local Pension Board members with a view to developing a programme that supports both an introductory and progressive knowledge base.
- 2.5 The Committee are asked to consider and approve the training policy, included at appendix A, which will be reflected in the Committee's Terms of Reference.

3.0 Risk Register

- 3.1 The Fund's risk register has been compiled to represent all known and perceived risks across all service areas of the Fund. Each quarter, the Fund's compliance team, in conjunction with Senior Managers and Risk Owners, review the key risks which are drawn from detailed risk registers that are separately maintained for each service area of the Fund. The risk register is an active document that is regularly monitored to ensure it reflects the most recent activity of the Fund. The reporting period for risks is the most current quarter (December to March) and this monitoring is looked upon as both a reactive and proactive process to ensure emerging risks are identified quickly and action taken to address, as required.

3.2 The Fund’s full risk register for this quarter contains 56 Risks, of which 14 are rated as red and noted as Key Risks. 41 Risks are rated as Amber and 1 rated as Green. In assessing risks, the Fund undertakes a 5 x 5 matrix assessment as follows

Impact	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Probability				

3.3 Since conducting the end of quarter review, the Fund has not identified any further movement in the risks. At the quarter end, one risk area had increased in relation to the potential change in committee and local pension board membership. This is a precautionary assessment due to the cycle of elections held each year. This will be reviewed next quarter following confirmation of changes in membership and completion of the Fund’s annual induction training.

3.4 Further to the review, the key risks register is included at appendix B, providing the assurance to Committee of the controls in place to protect the Fund.

4.0 Compliance Monitoring

4.1 Finance and Investments

Late Trades

The Fund continues to monitor late and failed trades. Late trades relate to instructions on stocks which were not executed at the time requested but executed at a later period with no detriment to the Fund. A failed trade is where the execution on stocks was not actioned.

The number of late trades for the period of January to March was 7, this was an improvement on the previous quarter’s late trades of 8. None of these late trades resulted in detriment to the fund.

The number of failed trades for this period was 22, this was a reduction on the previous quarters failed trades of 27. None of the failed trades resulted in detriment to the fund.

Contributions

The Finance team continue to engage with employers to ensure contributions are received monthly in line with tPR guidelines. The procedures for monthly reconciliation of contributions continue to develop and embed within the employer monthly submission process.

For the testing sample of March, the Fund had 56 out of 670 employer contributions (£282,628 in value) received late. Finance and employer services continue to work with the employers with a shortfall in employer contribution payment. Ongoing monitoring is in place to identify any outstanding or repeat cases of late payments.

4.2 Governance and Operations

Freedom of Information (FOI) requests

This quarter the Fund has received 5 FOI requests mainly regarding the Fund's investment performance. Requests of this nature are becoming more frequent and to assist in the Fund's management of these queries, the Fund has decided to publish more detailed investment information on a quarterly basis via the website.

Data Breaches

This quarter the Fund has recorded 15 data breaches, all of which have been reported to the City of Wolverhampton Council's Information Governance team. All breaches related to the disclosure of information to unintended recipients. The Fund continues to identify improvements to working practice where required, which includes the implementation of a hybrid mail printing solution, which will shortly be introduced. Committee will recall the work undertaken by the Fund to procure the hybrid mail solution, as reported in procurement updates provided in previous meetings. None of the breaches were required to be reported to the Information Commissioner.

5.0 Regulatory Updates

5.1 Cost Management Review

Further to the update presented to Committee at its March meeting, the Scheme Advisory Board issued guidance in May on the approach funds should take in the assessment of liabilities for the 2019 valuation, following the pause in the Cost Management process and review of changes to scheme benefits with effect from 1 April 2019, pending the outcome of the McCloud court case.

The changes could have significance in LGPS Funds' valuations which are required to assess and determine the liabilities of pension funds and their ability to meet the cost of paying pension benefits. At the time of pausing the changes, a package of improvements costing an average of 0.9% of payroll had been recommended. Depending on the profile of the membership of individual LGPS employers, the impact on contributions could have varied widely and guidance was sought from the Scheme Advisory Board on how Funds should account for this change as part of the 2019 valuation. The potential impact on all public service pension schemes is significant should the 2018 Court of Appeal's finding that protections for those within 10 years of retirement are unlawful be upheld. If, however, the finding is not upheld then the cost cap process will restart.

Guidance from the Scheme Advisory Board has stated that if no outcome from McCloud is known by 31 August 2019, funds and their actuaries should consider liabilities under the current regulations and scheme benefits, noting the expectation that the Scheme cost may rise in future. West Midlands Pension Fund will be working closely with its Actuary,

Barnett Waddingham to consider any potential outcome as it moves forward with the 2019 Actuarial Valuation and commences its engagement programme with Fund employers.

5.2 Employee exit payments

Committee will recall the proposal by Government to implement a £95,000 cap on payments to individuals who leave public sector employment with a view to reducing the burden on the public purse.

The cap is proposed to cover all payments and include the calculation of the employer strain costs on pension payments where an individual leaves employment and is entitled to receive their (often unreduced) pension benefits.

In April 2019, the Government launched a consultation on the proposals which have been criticised for capturing those individuals with long-term service earning average salaries. The consultation closes on 3 July 2019 and the Fund will be considering the proposals and the questions posed in its response.

5.3 LGPS Actuarial Valuation cycle

West Midlands Pension Fund, in line with LGPS Regulations currently undertakes a local triennial valuation to assess its funding level and future levels of contributions required from employers.

In May, government issued a consultation proposing to move this valuation cycle to every four years with the ability to conduct an interim valuation where there has been significant change between valuation cycles. Also proposed, is the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted if circumstances change.

The Fund will be working with its Actuary, Barnett Waddingham to understand the implications of the proposals and will keep employers informed of the consultation.

5.4 Good Governance in the LGPS

Previously referred to as the "Separation Review", the Scheme Advisory Board appointed Hymans Robertson to look at a range of options which may support governance arrangements for individual Funds within the LGPS, noting that the separation of LGPS Funds from their Administering Authority is not the intended outcome, with any degree of separation considered retaining local authority control.

Speaking at the PLSA (Pensions and Lifetime Savings Association) conference in May, the Scheme Advisory Board (SAB) set out their intention for the review in assisting LGPS Funds to ensure their ability to meet statutory requirements on good governance which included the ability to adequately resource their funds to deliver pension benefits for their members.

SAB have outlined their key considerations/criteria for the review which include avoiding the risk of conflict where officers in administering authorities conduct two, sometimes conflicting roles. In addition, SAB is considering the representation and standards of decision-making bodies in the LGPS, which may include the requirement for statutory training and knowledge requirements of those charged with decision making (elected members and officers).

As reported to Committee in March, the Fund participated in an initial fact find with Hymans Robertson and has issued a response to the survey. Hymans will be presenting their findings to SAB in July, following which SAB may make recommendations to MHCLG (Minister for Housing, Communities and Local Government).

6.0 Engagement with the Pensions Regulator

- 6.1 Since taking on responsibility for Public Sector Pension Schemes in 2014, the Pensions Regulator (tPR) launched its corporate plan in 2018 which included a programme of engagement and learning for the Public Sector Pension Schemes it now regulates, with a focus on the LGPS.
- 6.2 To facilitate development of its understanding of the LGPS, the Regulator chose 10 LGPS Funds with whom they would undertake a deeper engagement programme to further their learning of the governance, administration and management in practice following the issuance of the Code of Practice 14.
- 6.3 West Midlands Pension Fund was once such fund the Regulator engaged with holding 6 structured meetings to discuss the Fund's approach to complying with its statutory Code of Practice. Over the course of 4 months, Senior Managers from the Fund engaged with officers from the Regulator, providing examples of governance and administration practices in place to support compliance with the Code of Practice evidenced through adopted policies, the risk register, cyber and fraud risk management, as well as providing evidence of the Fund's Committee and Local Pension Board training programme.
- 6.4 That programme concluded in March and the Fund recently received correspondence from the Regulator thanking officers for their engagement and noting the mutual benefit from the close proactive working. The Regulator was keen to stress that West Midlands had not been chosen out of any concern for how we are managed and governed and noted the variety of good practice approaches the Fund has taken to implement their guidance on scheme governance and administration.
- 6.5 The Regulator continues to engage with a number of LGPS Funds and is due to publish a report of their engagement in the Summer. This is expected to cover areas of good practice on a no-names basis.

7.0 Pension Committee Training Hours

- 7.1 In line with CIPFA guidance, the Fund is required to publish details of the training and attendance hours of its Pension Committee and Local Pension Board.

- 7.2 Overall, the training hours for the Pensions Committee increased by 24% compared to the 2017-18 democratic year closing on a total of 1069.25 hours. A copy of the Committee's training hours for 2018-19 can be found at appendix C.
- 7.3 Members undertook a range of different training opportunities that were delivered by both Fund Officers and external specialists and included the following:
- Fund events including the AGM and MYR
 - Annual LAPFF Conference
 - Tour of Properties invested in by the Fund
 - 2-day structured off-site training
 - LGPS Central Ltd Annual Stakeholder day
 - Regular media round up updates
 - Quarterly training delivered following meetings, covering topics including UK Economy, Sustainable Investing, Climate Change and the Government Actuary Department (GAD) Section 13 review of LGPS funding valuations.

8.0 Financial implications

- 8.1 The Fund has accounted for Regulatory change as part of its Service Development Budget, there are therefore no implications to the Fund's budget.

9.0 Legal implications

- 9.1 Changes to legislation and statutory guidance are detailed in the report. Failure by the Fund to comply with legislation and/or statutory guidance can result in enforcement action and fine from both the Pension Regulator and the Courts via judicial review.

10.0 Equalities implications

- 10.1 There are currently no equalities implications contained within this report, an equality impact assessment will be undertaken where new policies are adopted following change in regulation/statutory guidance.

11.0 Environmental implications

- 11.1 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 Regulatory Update report to Committee, March 2019
<https://wolverhamptonintranet.moderngov.co.uk/documents/s103930/Regulatory%20Update.pdf>
- 14.2 Scheme Advisory Board guidance on the cost management review and application of McCloud in the 2019 valuation
<http://www.lgpsboard.org/images/Other/Advice from the SAB on McCloud May 2019.pdf>
- 14.3 Government consultation on the £95K cap
<https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector>
- 14.4 LGPS Valuation cycle consultation
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf
- 14.5 Scheme Advisory Board Good Governance Review
https://www.lgpsboard.org/images/PDF/Options for separation Instructions for bidders_20180820.pdf
- 14.6 Procurement report to Committee, March 2019
<https://wolverhamptonintranet.moderngov.co.uk/mgConvert2Pdf.aspx?id=103862&OrigUrl=documents%2fs103862%2fprocurement.pdf&TPID=1813913&>

15.0 Schedule of Appendices

- 15.1 Appendix A: Pensions Committee and Pensions Board Training Policy 2019
- 15.2 Appendix B: Risk register
- 15.3 Appendix C: Pensions Committee Training Hours 2018-19