Agenda Item No: **11**

Pensions Committee

9 December 15

Report title	Risk and compliance monitoring 1 July 2015 – 30 September 2015	
Originating service	Pension Services	
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Recommendations for noting:

The Committee is asked to:

1. Note the top ten risks for West Midlands Pension Fund.
2. Note that no significant compliance issues have arisen during the quarter.
3. Note the Fund's compliance with The Pensions Regulator's code of practice.
4. Note the Fund's compliance with the Scheme Advisory Board's key performance indicators.

1.0 Purpose

1.1 To provide the Pensions Committee with the Fund's top ten risks, feedback on the quarterly compliance monitoring programme, the Fund's compliance with The Pensions Regulator's code of practice and the Scheme Advisory Board's (SAB's) key performance indicators.

1.2 The Fund's compliance with The Pensions Regulator's code of practice and the SAB's key performance indicators, will also be taken to the Pensions Board in January 2016.

2.0 Risk register

2.1 The Fund's top ten risks are shown in Appendix 1. Detailed risk registers are separately maintained for each department of the Fund by Compliance.

2.2 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.

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 July to September 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
In accordance with the reporting requirements placed on us by The Pensions Regulator, we reported an employer for failing to pay contributions in line with the actuarial certificate. The Pensions Regulator have acknowledged our submission and are currently reviewing.

3.4.2 Governance
There were three breaches during the quarter which involved personal data being provided to the wrong recipient. These were one-off cases due to human error and were reported to the Council in accordance with internal procedures.

3.4.3 Investments
The Fund receives monitoring reports from external fund managers on a quarterly/half yearly basis and reviews these, with the aim of making contact at least once a year. Where there are significant issues, more frequent contact is made.

Compliance reviewed the frequency of the Fund’s monitoring through contact with external fund managers. The method of contact (e.g. face-to-face meeting, conference call) was left to the internal portfolio managers’ discretion, dependent on size of holding, whether there are any issues, etc.

- Infrastructure – 21 funds out of 22 have been contacted within the last 12 months, and a call is scheduled for 17 December 2015, for the remaining fund.

- Property – 25 out of 28 funds have been contacted within the last 12 months and appointments are scheduled so that the remaining 3 will be contacted by 1 December 2015.

- Unquoted equities – 139 out of 171 funds have been contacted within the last 12 months. The portfolio manager has planned to meet or hold conference calls with the remaining managers by no later than 31 January 2016.

4.0 The Pensions Regulator’s code of practice

4.1 In April 2015 The Pensions Regulator (“tPR”) 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.

4.2 The Fund has assessed its compliance against this code of practice, using the RAG rating system, see Appendix 3. There are no areas of significant concern. Areas with an amber rating reflect development work being undertaken to further tighten controls and ensure a robust monitoring framework.

5.0 Scheme Advisory Board’s key performance indicators

5.1 During 2014, the SAB Scheme Reporting Working Group developed a suite of 18 KPIs to assess and benchmark the health of LGPS funds. The 18 KPIs were made up of 4 core KPIs and 14 supplementary KPIs. For each of these KPIs, the Fund was required to score itself against stipulated examples of best practice and concern; the possible scoring range being -56 to +60.

5.2 **Exception reporting**
The Fund’s self-assessment is attached in Appendix 4, the Fund has a score of +37. Listed below are the areas of the KPIs where the Fund did not achieve the maximum available score and where possible, the steps we are taking to address this.

5.2.1 **KPI 1: <3 priority/”red” risks**
At the time that the KPIs were submitted, the Fund had 3 risks rated as “high”, (currently there are 2). However the Fund’s view is that “less than three priority risks”, does not necessarily indicate good practice and could mean that risks have been missed – more important, is to have a robust risk management framework in place.

5.2.2 **KPI 2: Funding level rising and getting closer to 100% funded (or above) over the last three triennial valuations on a standardised like for like basis**
The funding level reduced from 75% at the 2010 valuation to 70% at the 2013 valuation. Standardised assumptions will be used by all LGPS funds at the 2016 valuation. Although these assumptions have not yet been set, indicative work undertaken by Hymans suggests that when all funds were assessed on a like for like basis at 31 March 2013 valuation, WMPF's funding level would have been higher.

5.2.3 **KPI 3: Implied deficit recovery period less than 15 years for last 3 valuations**
The "implied deficit recovery period" is based on like for like Her Majesty's Treasury's assumptions (not each funds valuation assumptions), which are not available yet.

However, at the 2010 valuation, the Fund's deficit recovery period (using its own assumptions) was 25 years, reducing to 22 years at the 2013 valuation. The deficit recovery period will next be considered at the 2016 valuation. Whilst the Fund aims to reduce its deficit recovery period, this needs to be balanced with the impact on employers' contributions and thus affordability of the scheme.

5.2.4 **KPI 7: Full compliance with TPR guidance and codes for public sector pension schemes**
The Fund has undertaken a self-assessment against the code of practice, as outlined in 4.0 above.

5.2.5 **KPI 8: Fund and employer discretions published**
The Fund does not publish employer discretions as there are so many of them bespoke to each employer. Going forward we will publish the Fund's discretions and a list of employers who have discretions, with links to their websites.

5.2.6 **KPI 8 and 18: Meet 'Plain English', Crystal Mark and or other recognised e-publishing standards**
Whilst we endeavour to ensure our documents meet 'plain English' standards we do not hold the Crystal Mark to meet this standard. Given other priorities and the resource required to achieve this standard, this is not something we are pursuing at the moment.

5.2.7 **KPI 10: Overall Fund investment return (net of fees) for last 1, 3 and 5 years in top three quintiles**
The Fund's performance to March 2015 was not in the top three quintiles for all the 3 periods.

With regards to the percentage of fund mandates which have delivered over rolling 3 year performance periods, the complexity of our pooled fund arrangements is such that the KPI analysis would not be meaningful. It does work for segregated mandates and so our KPI response was focussed on these.

To reduce costs and improve performance going forward, the Fund:-

- Is reviewing its strategic asset allocation and implementation of its investment strategy.
- Has strengthened the decision making process through the implementation of the Investment Advisory Panel (IAP).

- Appointed an Independent Investment Advisor to the IAP, to provide independent, senior experience and pro-active assistance on all investment matters.
- Implemented an in-house active global equities portfolio in May 2015.
- Has reorganised its equity mandates, reducing the number of mandates from 17 to 12, to facilitate
    - Tighter monitoring and oversight of portfolios
    - The setting of portfolio objectives and portfolio construction (creating portfolios with more clearly defined characteristics)

5.2.8 **KPI 12: Common and conditional data meets TPR standards**
The Pensions Regulator stipulates that common and conditional data standards apply only to private sector schemes, public sector schemes must comply with the Public Service (Record Keeping and Miscellaneous Amendments) Regulations 2014. A data quality report is brought to this committee (9 December), setting out the actions being taken to ensure the completeness and quality of data held by the Fund.

5.2.9 **KPI 13: ABS meet or exceed regulatory standards and due timelines for issuance**
The Fund did not meet the statutory deadline of 31 August 2015 for issuing ABSs. This was the first time the Fund did not meet the deadline. The Fund notified The Pensions Regulator who confirmed they will not be taking any action, as the Fund issued by 31 October 2015. The Fund is actively working with its software provider and employers to improve the timeliness and ease of exchange of information, to prevent delays in 2016.

5.2.10 **KPI 15: No stage 2 Internal Dispute Resolution Procedures (IDRPs) and no Pensions Ombudsman findings against the Fund's actions in the last three years**
Six cases have been progressed to the Ombudsman in the last three years, with one resulting in a determination against the Fund. The Fund has little control over the number of stage 2 IDRPs, as these are where a member feels their dispute with their employer is unresolved and refers it to the Fund to investigate. However we are providing more guidance to employers so that cases are dealt with properly and completely in the first instance.

6.0 Financial implications

6.1 The compliance monitoring programme has not identified any areas of high concern.

7.0 Legal implications

7.1 **Risk management**

7.1.1 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*.

7.1.2 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.

7.2 **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.

8.0 Equalities implications

8.1 This report contains no direct equal opportunities implications.

9.0 Environmental implications

9.1 This report contains no direct environmental implications.

10.0 Human resources implications

10.1 The report contains no direct human resource implications.

11.0 Corporate Landlord

11.1 There are no corporate landlord implications.

12.0 Schedule of background papers

12.1 Agenda item no. 15 at the 23 September 2015 Pensions Committee: Risk and compliance monitoring 1 April 2015 to 30 June 2015, which can be found at: - http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4825&Ver=4

13.0 Schedule of Appendices

13.1 Appendix 1 – West Midlands Pension Fund Risk Register

Appendix 2 – Impact and likelihood key

Appendix 3 – Compliance with The Pensions Regulator's code of practice

Appendix 4 – LGPS Scheme Advisory Board Key Performance Indicators