



Pensions Committee

25 June 2014

Report title

Trustee update report

Originating service

Pension Services

Accountable employee(s)

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Report to be/has been considered by

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Note the report
2. Note the changes due to be implemented over the coming year

1.0 Purpose

- 1.1 To provide an update for existing and all new Trustees to the Pensions Committee.
- 1.2 It provides a brief outline of the West Midlands Pension Fund ('The Fund'), the management arrangements and the special role of Trustees in respect of the discharge of the functions associated with the relevant pension regulations and legislation.
- 1.3 The report details information for all new Trustees to the Pensions Committee and provides an update to existing Trustees on the proposals for governance reform and the clarification of training requirements.
- 1.4 For clarity within the report those appointed to or who sit on the Committee are referred to as 'Trustees'. Those in receipt of a pension are referred to as 'Members'.

2.0 Background

- 2.1 Following the 1974 Local Government reorganisation, all Council employees in the region (excluding Teachers, Police and Fire Officers) became members of the West Midlands Superannuation Fund with the former County Council being the administering authority.
- 2.2 The 1986 reorganisation created Wolverhampton City Council ('The Council') who in turn became the administering authority for the Fund.
- 2.3 The management of the Fund is divided between distinct functions which are Investment Management, Pensions Administration, Governance and Fund Accounting. These areas of responsibility are delegated by the Pensions Committee to the Director of Pensions, who in turn delegates to her officers.
- 2.4 The total membership of the Fund is 270,598 made up of:

Contributing (active) members:	99,696
Deferred members:	90,082
Members in receipt of a pension (pensioner & beneficiary pensioner):	80,820
Number of scheme employers:	428

- 2.5 The Fund has a dedicated website www.wmpfonline.com which provides more detailed information. Trustees are encouraged to identify any additional information that would be useful to them which can then be added to the website.

3.0 Investment Management

- 3.1 The approach to investment of the Fund's resources is guided by annual investment strategy reviews.

3.2 The Fund has set the following objectives;

- a) An investment strategy that aims to determine the balance of assets having regard to the Fund's liability structure.
- b) The need for stable employer pension costs which is of major importance for the employing bodies because of the impact on their budgets and forward plans.
- c) The aim to match or exceed the Fund's target return, investment returns of comparable funds and the markets in which the Fund invests over the medium to long term.
- d) The need to manage risk through diversification, detailed manager selection and monitoring and comprehensive monitoring of operational risks.
- e) The best practice principles set out in relevant codes of practice are accepted as the investment standard to achieve.

3.3 The investment strategy is expressed in the medium-term asset allocation control benchmark. An asset allocation benchmark is the underlying medium to long term strategic allocation of the assets of a Fund which aims to position the Fund to have distribution of assets that over time is most likely to achieve its objectives. Research has shown that asset allocation is the most significant factor in determining investment returns.

3.4 The triennial actuarial valuation, undertaken by the Fund's actuary, is important in setting the framework for determining the benchmark. It facilitates the balances of various risks associated with the main asset classes against the need to match the Fund's projected liabilities over the medium to long term.

3.5 The Fund's investment strategy is to be reviewed in parallel with the 2013 actuarial valuation.

3.6 In January 2012, Pensions Committee appointed Hymans Robertson as advisors for the Strategic Investment Allocation Benchmark, which aims to conduct an annual review of Investment Strategy. The last review was carried out in 2013. The Fund's position is clearly stated in the current investment strategy, Statement of Investment Principles (SIP) Compliance with the Myners Principles and Socially Responsible Investment Statement (SRI), which are available on the website or from officers. They contain useful information concerning the management of investments and follow recognised best practice.

4.0 Pension Administration

- 4.1 Benefit administration work is undertaken by the Pensions Administration function and includes:-
- Payment of pensions and the remittance of voluntary deductions to such organisations as the BHSF and Patients Aid.
 - Calculation and notification of retirement benefits.
 - Provision of information to new scheme joiners, rejoiners, deferred members, retirement options for new pensioners, estimates of future benefits, information for divorce purposes and details regarding increasing the annual pension.
 - Calculation, notification and payment of a member's transfer value out of the Fund.
 - Notification of service credit and updating a member's record following receipt of a transfer payment into the Fund.
 - Calculation and notification of benefits to early leavers e.g. deferred benefits and refund details.
 - Notification, calculation and payments of benefits on the death of a contributing member, deferred member and pensioner.
 - Issuing Annual Benefit statements to active members, deferred members, and pension credit members.
 - Customer Service help for all Scheme members and employers.
 - Technical support to employers including coaching sessions.
 - Admitting new employers into the scheme, e.g. academies and out-sourced bodies.
 - Maintaining and updating of all members computerised records (e.g. change in hours or personal details).
 - Data validation of scheme member records and employer information.
 - Resolving complaints through the Internal Disputes procedure.
- 4.2 In March 2013 the Fund officially launched its self-service web portal platform after a successful trial in 2012 with the West Midlands Police Authority.
- 4.3 The service, which is the central part of the Fund's electronic communications strategy, allows Members of the scheme to view their individual pension records and complete certain actions which they would have previously had to request directly from Fund staff, including retirement estimates and changes of address.
- 4.4 To date more than 13,700 Members have registered for secure access to this service. This is expected to increase substantially throughout summer 2014 as Members are informed that the Fund will only now issue yearly benefit statements electronically unless a written election is received.
- 4.5 The web portal service is also available to Fund employers with almost a quarter of the Fund's employers registered to use this service.
- 4.6 The Fund's web portal has been recognised in industry awards in 2013 and 2014 by being shortlisted for both the Pensions Age Awards (Innovation Award of the Year) and the Professional Pensions Pension Scheme of the Year Awards (Best DB Scheme Innovation).

5.0 Finance and Audit Requirements

- 5.1 The Fund's management arrangements and activities are subject to external audit procedures and due to the specialist nature of these requirements, the Fund sources the expertise of external auditors who have knowledge and experience of pension matters. The auditors produce a report for the Fund. To date we have received clean audit reports.
- 5.2 The Fund is supported by WCC's internal audit team and has an Internal Compliance and Risk team as part of the Assurance Framework.
- 5.3 The Finance Team provide financial accounting and management of the Fund and is supported by WCC's Section 151 Officer.

6.0 Governance of the Fund

- 6.1 The Fund, in compliance with its statutory duty, has issued a Compliance Monitoring Programme and Governance Statement which aims to ensure our processes are compliant with best practice and statutory requirements. This also provides an added assurance to Trustees who have responsibility for the Fund's activities. Trustees are encouraged to read the document and adhere to the principles contained within it.
- 6.2 The latest version of the statement is available on the Fund's website and will be reviewed in line with legislative changes and reform requirements.

7.0 Structure of the Fund

- 7.1 Under the Council's constitution, the responsibility for administering the Fund is delegated to the Pensions Committee which has representatives from the seven District Councils as the largest employers and four Trade Union representatives nominated from the Joint Consultative Forum of Trade Union representatives for the West Midlands region. A copy of the Council's constitution is available on its website.
- 7.2 The changes in responsibility for the delivery of Council services has seen an increase in the number of private sector organisations, voluntary sector organisations and more recently Academies, becoming members of the Fund.
- 7.3 The Committee manages the Fund in accordance with the regulations and best practice determining the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

7.4 As a Trustee of the Committee your duty will be to:

- Discharge the statutory functions of the Council for the application of the Local Government Pension Scheme in the West Midlands, including equality issues.
- 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.
- Determine and review the provision of resources made available to the Fund in the execution of their duties.

7.5 In performing these duties you are required:

- 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 position relative to the benchmark.
- To monitor policy.
- To appoint committee advisors.
- To determine detailed management budgets.

7.6 As well as the Pensions Committee, the Fund also consists of the Investment Advisory Sub-Committee whose role is to advise on the establishment of policies in relation to investment management, to oversee and monitor investment activity and the performance of the Fund.

7.7 The Investment Advisory Sub Committee meet at least four times a year focusing on the following key duties:

- 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.

7.8 These two Committees are supported by Officers, led by the Director of Pensions who has delegated responsibility from the Council for the administration of the Fund. The Director is supported by the Senior Management Team consisting of the Assistant Director, Fund Accountant, Head of Pensions Administration and the Head of Governance. Further support is provided by the statutory officers of the Council, being the Chief Executive, Chief Legal Officer and Section 151 Officer.

8.0 Your role as Trustee

8.1 The Secretary of State has previously indicated that administering authorities should pay due regard to the principle contained in *Roberts v Hopwood* in exercising their duties. 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 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”.

8.2 When considering advice and determining investment policy, you are acting as a Trustee and as such need to understand the special obligations placed upon you. These responsibilities are in addition to those you carry out as an elected Councillor of your Local Authority.

8.3 Your duty as Trustee is 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 you may have to make decisions that in other political circumstances you may choose not to make. The overriding consideration for you as a Trustee has to be for the benefit of the Fund, its contributors and its beneficiaries.

8.4 “The standard required of a Trustee in exercising his powers of investment is that he must take care as an ordinary prudent man would take if he were minded to make an investment for the benefit of other people for whom he 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”. (Cowan & Scargill 1985).

8.5 The advice of the Fund’s advisers is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibility that go with them. You are not expected to be qualified to give investment advice or to initiate investment policy; however, you must be aware of what is proposed by the Fund’s advisers and be sure that it is relevant to the needs of the Fund and within your powers to do.

8.6 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 advisers. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings with and regular written reports from professional advisers whose skills and judgements can be relied upon.

8.7 In seeking this advice the Fund ensures that those they hire are experts in their field.

8.8 Currently the fund source advice from the following persons:

- Council Officers
- CBRE, the independent advisor on property
- Mercer Limited (the Fund's Actuary)
- Hymans Robertson (the Fund's investment consultants)
- John Fender (independent advisor on property)

9.0 Trade Union Representatives and Provision of Information to Third Parties

9.1 The Fund invites relevant trade unions to send local representatives to a Joint Consultation Forum which meets at least three times per year to consider the activities of the Fund. They can also elect four representatives one of which represents Retired Members to the Pensions Committee and three to the Investment Sub-Committee. Although these representatives do not have voting rights they are treated as equal members of the committees and they have access to all committee papers, officers, meetings and training as if they were Council members and have an opportunity to contribute to the decision making process.

10.0 Personal Interests

10.1 Currently Trustees are not required, in the ordinary course of their work on the Pensions Committee, to declare their personal investments, other than those declared in their role as elected councillors, as they are not normally involved in specific direct investment management or in specific stock selection.

10.2 This is due to change under the 2014 Governance Reform and Trustees will be required to declare any matter, financial or otherwise, which may give rise to a conflict.

10.3 It should be noted that the investment advice and any related information given to the Committee is confidential and should not be disclosed under any circumstances.

11.0 2014 Governance Reform

11.1 The Public Service Pensions Act 2013 ('The Act') outlined new governance structures for Pension Funds to take effect from 1 April 2015. The Act proposed a Scheme Manager (The Administering Authority) to be advised by a Pensions Board consisting of proportionate numbers of member and employer representatives. The actual detail of how this is to be implemented is to be defined in Regulations which, at the time of writing, we are anticipating to be issued in June.

11.2 In the lead up to the issuance of the Regulations, there has been consultation with Fund Authorities Nationwide about what the Regulations should contain and from this we can speculate what the Regulations might contain and how they may be implemented.

11.3 What is certain is that it will require a governance review of the Fund.

12.0 Financial implications

12.1 There are no financial implications.

13.0 Legal implications

13.1 There are no legal implications.

14.0 Equalities implications

14.1 None identified.

15.0 Environmental implications

15.1 None identified.

16.0 Human resources implications

16.1 None identified in excess of current need.

17.0 Corporate landlord implications

17.1 None identified.

18.0 Schedule of background papers

18.1 There were no preceding background papers.