

Pensions Committee

Minutes - 22 June 2016

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Peter Bilson
Cllr Hazel Malcolm
Cllr Phil Page
Cllr John Reynolds
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Wendy Thompson
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Sandra Hevican (Sandwell MBC)
Cllr Angela Sandison (Solihull MBC)
Cllr David Sparks (Dudley MBC)

Trade Union observers

Malcolm Cantello (Unison)
Martin Clift (Unite)
Alan Phillips (GMB)
Ian Smith (Unite)

Employees

Emma Bland	Compliance and Risk Manager - West Midlands Pension Fund
Rachel Brothwood	Assistant Director, Actuarial and Pensions - West Midlands Pension Fund
Mark Chaloner	Assistant Director, Investments
Geik Drever	Strategic Director of Pensions - West Midlands Pension Fund
Dereck Francis	Democratic Support Officer
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor
Jennifer Pearce	Senior Auditor
Mark Taylor	Director of Finance

Grant Thornton

Ashley Wilson	External Auditors
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Part 1 – items open to the press and public

Item No. *Title*

- 1 **Apologies for absence (if any)**
Apologies for absence were submitted on behalf of Cllr Jasbir Jaspal (City of Wolverhampton Council), Cllr Keith Chambers (Walsall Metropolitan Borough Council) and Cllr John Mutton (Coventry City Council).

2 **Chair's announcements**

Cllr Ian Brookfield, (Chair) thanked past and present members of the Pensions Committee who attended the induction session. He reminded members of the importance of training and that any current members who were unable to attend the induction would have to take it up before the next meeting.

The Chair also reported that Jaswant Sidhu, the Fund's Portfolio Manager, Private Equities had received the award 'Best Use of Private Equity in the Institutional Investor UK & Ireland Peer to Peer Awards 2016. He placed on record his congratulations to Jaswant Sidhu on the prestigious award.

3 **Notification of substitute members**

No notification of substitutes were received for the meeting.

4 **Declarations of interests (if any)**

There were no declarations of interests.

5 **Minutes**

a. **Pensions Committee – 16 March 2016**

Resolved:

1. That subject to paragraph four to Minute 10 being corrected to read:

'Malcolm Cantello, Unison queried why the income from the Integrated Transport Authority Fund to the WMPF had remained static over the years.'

2. That subject to resolution 1 above, the minutes of the meeting held on 16 March 2016 be approved as a correct record and signed by the Chair.

b. **Investment Advisory Sub Committee – 16 March 2016**

Resolved:

That the minutes of the meeting held on 16 March 2016 be approved as a correct record and signed by the Chair.

6 **Matters arising**

There were no matters arising from the minutes of the previous meetings.

7 **Appointments of Sub Committee and dates of meetings 2016/17**

The Committee was invited to appoint members to the Investment Advisory Sub Committee and to note the dates and times of meetings during 2016/17 municipal year for the Committee, the Advisory Sub Committee and the Pensions Board.

Resolved:

1. That the following Members be appointed to the Investment Advisory Sub-Committee for the municipal year 2016/17.

Cllr Ian Brookfield (City of Wolverhampton Council)
Cllr Keith Inston (City of Wolverhampton Council)
Cllr Peter Bilson (City of Wolverhampton Council)
Cllr Tersaim Singh (City of Wolverhampton Council)
Cllr Muhammad Afzal (Birmingham City Council)
Cllr Keith Chambers (Walsall Metropolitan Borough Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)

Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull Metropolitan Borough Council)
Cllr David Sparks (Dudley Metropolitan Borough Council)
Mr Malcolm Cantello (Unison)
Mr Martin Cliff (Unite)
Mr Alan Phillips (GMB)
Mr Ian Smith (Unite)

2. That the following dates and times of meetings be confirmed:

- i Pensions Committee be held on Wednesdays at 1.30 pm on:
14 September 2016
7 December 2016
22 March 2016
- ii Investment Advisory Sub-Committee to be held on Wednesdays at 10.30am on:
14 September 2015
7 December 2015
22 March 2016
- iii. Pensions Board to be held on Tuesdays at 2pm on:
5 July 2016
24 January 2016

3. That the Chair and Vice-Chair of the Pensions Committee be appointed to serve in the same capacity on the Investment Advisory Sub-Committee for the municipal year 2016/17.

8 **Internal dispute resolution process - review**

Rachel Brothwood, Assistant Director Actuarial and Pensions presented the update report on the work undertaken in the Internal Dispute Resolution process (IDRP) and on how proposed changes to the format for handling these disputes would be implemented.

Cllr Phil Page suggested that, at one of the future training sessions, the Committee receive training on how the new procedures and processes would work.

Resolved:

1. That the new process for handling IDRP be approved.
2. That the selection and appointment of external reviewers where appropriate be approved.
3. That authority be delegated to officers to implement any amendments as a result of consultation with employers.

9 **Draft Annual Report and Accounts 2015/16 (including operating budgets outturn 2015/16)**

David Kane, Head of Finance, presented for approval a report on the Fund's draft annual report and statement of accounts for the year ending 31 March 2016. The report also set out the outturn against operating budgets and performance against key performance indicators (KPIs) for the year. In doing so the Head of Finance

reported that City of Wolverhampton Council's Section 151 Officer had approved the accounts which would be externally audited by Grant Thornton, external auditors. The final version of the annual report and accounts would be reported back to the Committee in September 2016. He also informed the Committee that it had been a good year for the Fund and he highlighted some of the particular successes.

Members of the Committee welcomed that the value of the main Fund had increased by £196 million during 2015/16 on the previous year; that the cost of administration, oversight and governance per member had reduced from £18.70 to £17.72; and that the Fund was delivering good returns against its benchmarks. They placed on record their recognition of the work of the officers in delivering the good set of figures which showed that the Fund was being well managed. The Committee also asked that their sentiments be conveyed to all those involved at the Fund.

Geik Drever, Strategic Director of Pensions thanked the Committee for the support it had given to her and the Fund and for their kind remarks about the achievements of the Fund during the year.

Malcolm Cantello, Unison pointed out a number of typographical errors within the statement of accounts. The Chair reported that the statement of accounts was draft and that the comments would be taken on board.

Resolved:

1. That the draft annual report and accounts for the year ending 31 March 2016 be approved.
2. That the outturn against operating budgets, which is an under spend of £3.8 million, and performance for the year against the Fund's key performance indicators be noted.
3. That it be noted that the draft accounts have been certified by the Section 151 Officers as required by regulations.
4. That it be noted that the draft annual report and accounts would now be subject to audit by the Fund's external auditors, Grant Thornton, with the final version, including their audit opinion, to be reported to the Committee in September.

10

Responsible investment activities

Mark Chaloner, Assistant Director outlined the salient points of the report on work undertaken by the Investment Team regarding their responsible investment activities during the period 1 January to 31 March 2016.

The Assistant Director stated that the Fund, through the Local Authority Pension Fund Forum (LAPFF), would be continuing its programme of engagement with one of the companies operating in Israel to ensure that it had a human rights policy in its business process in that country. The Committee agreed that LAPFF be requested to assist in engagement in this case.

Ian Smith, Unite suggested an amendment to the recommendation in the report relating to the Fund's non-exclusion policy so as not to constrain the Fund when considering future investments and to enable the Fund to consider such issues on a case by case basis. The Committee agreed that the recommendation should be

reworded to state that engagement was the preferred approach to responsible investment policy.

Geik Drever, Strategic Director of Pensions reported that the Fund's policy on engagement had proved successful for a long time. The Fund was also a founder member of the LAPFF which had also been successful in its engagement policy. Updated Government guidance on responsible investment considerations was expected shortly. When the guidance is issued, the Fund would review its position to ensure that it adhered to it.

Resolved:

1. That the Committee adhere to the Fund's engagement policy as its preferred approach to responsible investment policy.
2. That the Fund's updated Responsible Investment Framework be approved.
3. That the Fund's voting and Local Authority Pension Fund Forum's (LAPFF's) engagement activity for the three months ending 31 March 2016, including Appendix 1 to the report be noted.
4. That the issues discussed by LAPFF which are set in the quarterly engagement report available on their website be noted:
<http://www.lapfforum.org/Publications/engagement>
5. That the Fund's engagement programme and the update on the Israeli-Palestinian engagement be noted and a request be made to LAPFF on this matter.

11 **West Midlands Integrated Transport Authority investment performance report 2015/16**

Geik Drever, Strategy Director of Pensions presented the report on the Fund's asset allocation and investment returns for the year to 31 March 2016 and the longer term.

Resolved:

That the Fund's performance for the year to 31 March 2016 and the longer term be noted.

12 **Investment performance report 2015/16**

Geik Drever, Strategic Director of Pensions outlined the salient points of the report of the Fund's investment policy and investment returns for the year to 31 March 2016.

In response to questions, the Strategic Director of Pensions explained that the reason for differing figures in the draft Statement of Accounts 2015/16 (item 8 above) and the investment performance report for the 'closing market value of the Fund' and for 'cash' was the way in which the draft statement of accounts had to be produced differed from how the investment performance report was produced. The Strategic Director of Pensions also commented on China and the emerging markets.

Resolved:

That the Fund's performance for the year to 31 March 2016 and the longer term be noted.

13 **External Audit plans - 2015/16 Annual Report and Accounts**

Ashley Wilson from Grant Thornton, the Fund's external auditors outlined the salient points of their reports on plans for the external audit of the Funds' Annual Report and Accounts for 2015/16.

During the ensuing discussion Grant Thornton responded to the Committee's questions on the gap between the level determined for materiality and the amount determined for misstatements. They also explained Level 2 and Level 3 investments in relation to the audit of the accounts.

Regarding the Grant Thornton paper on 'informing the audit risk assessment', and responding to a question on 'matters in relation to going concerns' and the extent to which external auditors would consult with the Funds Actuaries, Grant Thornton confirmed that it received reports from the Fund's Actuaries and then used its own experts to review what the Actuaries had said in their report.

Responding to a question on whether the risks within the documents 'informing the audit risk assessment' could be RAG rated to enable the Committee to identify whether the Fund was compliant with the issues raised, Grant Thornton reported that the paper was not one that was RAG rated. The format of the report was an industry standard. The Chair suggested that the Committee could look at the question of RAG rating the management responses to the questions posed by Grant Thornton and discuss the responses.

Malcolm Cantello, Unison asked, with the newly established West Midlands Combined Authority, where the West Midlands Integrated Transport Authority (ITA) Fund fitted within the new arrangements. Geik Drever, Strategic Director of Pensions advised that the ITA Transport Fund was now with the Combined Authority. The Pensions Committee would continue to be responsible for the Transport Fund.

Resolved:

1. That the management responses to questions from the external auditors, Grant Thornton LLP, as part of their audit planning be confirmed.
2. That the external audit plans for the 2015/16 Annual Report and Accounts, as prepared by Grant Thornton be noted.

14 **Internal Audit report 2015-2016**

Amanda McDonald, Client Lead Auditor, City of Wolverhampton Council presented a report on the outcome of the work programme for internal audit for 2015-2016.

Referring to the audit systems review of 'business continuity/resilience management arrangements', Cllr Ian Brookfield (Chair) asked if procedures were in place to deal with a catastrophic loss of data for a period of time. The Client Lead Officer confirmed that procedures were in place if the system went down.

Resolved:

That the internal audit report for 2015-2016 be noted.

15 **Risk and compliance monitoring 1 January to 31 March 2016**

The Committee received a report on the Fund's top ten risks and feedback on the quarterly compliance monitoring programme. The report also included an update report on progress with recruitment and retention of Fund staff.

Rachel Howe, Head of Governance West Midlands Pensions Fund and Geik Drever, Strategic Director of Pensions reported on the recruitment of administrators, investment staff and apprentices. It was also reported that excluding retirements, the Fund had not lost any staff in the last nine months.

Resolved:

1. That the top ten risks for West Midlands Pension Fund be noted.
2. That the compliance issues that have arisen during the quarter and resolutions put in place be noted.
3. That the work undertaken to review staffing structures within the Fund and the steps taken to secure future recruitment be noted.

16 **Annual report of the Pensions Board**

Rachel Howe, Head of Governance, West Midlands Pension Fund presented an Annual report on the work undertaken by the Local Pensions Board during 2015/16.

In response to a question regarding the training undertaken by the Pensions Board, Geik Drever, Strategic Director of Pensions reported that the 12 Board members had met the target number of training hours and had collectively completed 503 hours of training. It was observed that self-study and attendance at conferences were not recorded, but that Board members had been reminded to submit their quarterly training hours to the Trustee Management Officer for reconciliation.

Malcolm Cantello, Unison asked whether the Pensions Board would be apprised of the position and latest milestones regarding pooling of investments. The Strategic Director of Pensions advised that they would receive an update at their mid-year review. A web link would also be set up in order keep Board members updated on progress and any developments.

Resolved:

That the report be noted.

17 **Additional voluntary contributions - update and review**

Rachel Brothwood, Assistant Director, Actuarial and Pensions presented a high level overview of a planned review of the Fund's additional voluntary contributions (AVCs) arrangements. A comprehensive review would be provided to Committee at a future meeting.

The Chair commented that this was an important issue and that some scheme members would need extra help and support in considering AVCs.

Resolved:

That the report and the planned review of the Fund's AVC arrangements be noted.

18 **Data quality - quarterly update**

Rachel Brothwood, Assistant Director, Actuarial and Pensions presented the report on progress being made by the Fund to continue to improve data quality and its performance against legislative record keeping requirements. The report also summarised plans in place to make further improvements to data quality and the data review process.

In response to a question from Malcolm Cantello (Unison), the Assistant Director, Actuarial and Pensions reported that the data set issues referred to in paragraph 4.2 of the report could relate to a batch of scheme members for whom the Fund received late notification. They would be picked up in this year's analysis and this year's process. The report to the Committee in December would include a complete update on the data set issues.

The Chair reported that missing data would be one of his areas of focus on the Committee during the municipal year. The Fund would be working with employers to help them address the quality of the data they submitted to the Fund. However, if there were persistent material gaps or areas of concern about the quality of the data, the Fund would look at full cost recovery of the work to put it right.

The Strategic Director of Pensions added that in accordance with the Pensions Administration Strategy, the Fund could and had issued fines and recharges to employers. The Strategy was being reviewed this year to increase the levels of the fines.

Resolved

That the progress and the actions being taken to continue to improve data quality be noted.

19 **Pension administration report - 1 January to 31 March 2016**

Rachel Brothwood, Assistant Director, Actuarial and Pensions outlined the salient points of the report on work undertaken by the Pensions Administration service during the period 1 January to 31 March 2016 for both the Main Fund and the West Midlands Integrated Transport Authority Fund. In doing so she drew the Committee's attention to an employer within the Fund who had gone into administration. A detailed report on this would be submitted to the Committee in September as part of the Employer Covenant update report.

The Committee also noted an error in the table at Appendix D to the report (customer service statistics).

Resolved:

1. That the write-offs detailed in section 9.0 of the report be approved.
2. That the applications approved by the Strategic Director of Pensions and the Chair or Vice Chair of Pensions Committee for admission to the West Midlands Pension Fund be noted.
3. That the Pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund) be noted.

20 **Exclusion of the press and public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act.

Part 2 - exempt items, closed to press and public

21 **2016 Actuarial valuation - update**

Rachel Brothwood, Assistant Director, Actuarial and Pensions presented a report on the progress of the 2016 actuarial valuation.

In response to questions the Assistant Director, Actuarial and Pensions reported that it was likely that, in the light of the indicative funding update from the main Fund 2016 actuarial valuation, a deficit recovery plan would have to be put in place. Regarding a question on whether the Scheme would have to be less generous in the future, the Assistant Director reported that it was a statutory scheme with the benefits defined in legislation. A cost review of the Local Government Pension Scheme as a whole would be carried out at Government level. A further update report on the 2016 actuarial valuation would be submitted to the September 2016 meeting of the Committee.

Resolved:

That the report and the associated update on progress with the 2016 actuarial valuation of both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund) be noted.

22 **Investment Pooling update**

Geik Drever, Strategic Director of Pensions delivered a detailed presentation on progress regarding the pooling of investments in the Local Government Pension Scheme (LGPS). In doing so she asked the Committee to ratify the decisions to use a Financial Conduct Authority (FCA) regulated authorised structure for the LGPS Central investment pool and to create / build an operator and to agree the business case for the LGPS Central investment pool for the Department for Communities and Local Government (DCLG) submission on investment pooling required by 15 July 2016.

During the ensuing discussion Cllr Angela Sandison asked about the advantages to the West Midlands Pension Fund (the Fund) of joining a large investment pool given that the Fund was already large in its own right and that there was a limit to the economies of scale that could be achieved. She also noted that under the proposed governance arrangements for LGPS Central investment pool, every partner Fund (eight in total, the WMPF and WMITA Pension Funds are counted as one Fund) would have one vote each even though the West Midlands Pensions Fund was a third of the value of the investment pool. The Strategic Director of Pensions reported that it had been agreed that each partner of LGPS Central would have a single vote. The Strategic Director went on to explain some of the benefits and efficiencies that could be gained from being in a larger investment pool. It was also reported that the Fund had no choice in joining an investment pool as it was a Government mandate.

If the Fund did not join an investment pool the Government would pool the Fund with another investment pool.

Cllr Angela Sandison also commented on investing in infrastructure and indicated that she did not feel that social housing would be a right area for LGPS Central to invest in on behalf of scheme members. The Strategic Director of Pensions advised that a definition of 'infrastructure' had been sought from Government who had said that it is up to the investment pools to determine what to invest in within the asset classes.

Malcolm Cantello, Unison asked if all the Fund's assets are transferred to the LGPS Central what would happen to the Fund's staff and would the Pensions Committee manage anything. He expressed concern that a new bureaucracy was being created under investment pooling. The Strategic Director of Pensions advised that under the Transfer of Undertakings (Protection of Employment) Regulations 1981, the staff within the Fund's internal management team would move if their roles moved to the investment pool. The Strategic Director also responded to a question on the location for LGPS Central and informed the Committee that two locations for the Pool had been agreed, a headquarters and a satellite office.

In response to further questions from Cllr Tersaim Singh and Malcolm Cantello, Unison, the Strategic Director of Pensions also reported on the forecast breakeven point for LGPS Central and on the Funds contribution to the shared costs for LGPS Central and how the figure had been arrived at.

Resolved:

1. That the decision to use an FCA regulated authorised structure for the LGPS Central investment pool be ratified.
2. That the decision to create and build an operator for the LGPS Central investment pool be ratified.
3. That the business case, including all annexes and draft budget for set-up costs, for the LGPS Central investment pool be approved.