

Pensions Committee

Minutes - 14 September 2016

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Peter Bilson
Cllr Phil Page
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Jasbir Jaspal
Cllr Wendy Thompson
Cllr Hazel Malcolm
Cllr John Reynolds
Cllr Keith Chambers (Walsall MBC)
Cllr Sandra Hevican (Sandwell MBC)
Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull MBC)
Cllr David Sparks (Dudley MBC)

Trade Union observer:
Malcolm Cantello (Unison)

Employees

Geik Drever	Strategic Director of Pensions - West Midlands Pension Fund
Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
David Evans	Head of Portfolio, Passive Equities, West Midlands Pension Fund
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor
Mark Taylor	Director of Finance and Section 151 Officer

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 Steve Booton (Birmingham City Council), Martin Clift and Ian Smith (Unite) and Alan Phillips (GMB).
- 2 Notification of substitute members**
No notifications of substitute members were received.

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

Cllrs Tersaim Singh and Keith Chambers both declared a non disclosable pecuniary interest in any matters on the agenda relating to the West Midlands Combined Authority (CA) in so far as they are members of the CA Audit and Risk Committee.

4 **Minutes of previous meetings**

a. Pensions Committee – 22 June 2016

Resolved:

1. That minute 10 of the Pensions Committee held on 22 June 2016 be amended by the addition of:

‘Malcolm Cantello also commented on the recent Parliamentary Select Committee meeting and media reports into the employment practices at Sports Direct’.

2. That subject to 1 above the minutes of the meeting of the Pensions Committee held on 22 June 2016 be approved as a correct record and signed by the Chair.

b. Investment Advisory Sub Committee – 22 June 2016

Resolved:

That the minutes of the meeting of the Investment Advisory Sub Committee held on 22 June 2016 be approved as a correct record.

5 **Matters arising**

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

6 **Pension administration strategy - review**

Rachel Brothwood, Director of Pensions presented a proposed revised Pensions Administration Strategy and employer consultation, in preparation for the changes proposed to be implemented in April 2017.

Resolved:

That the proposed revised Pension Administration Strategy, and planned consultation with scheme employers prior to return to Committee in March 2017 for final approval be noted.

7 **Responsible investment activities**

David Evans, Head of Portfolio, Passive Equities highlighted the main points of the report on the work undertaken by the Investment team regarding their responsible investment activities between the period 1 April to 30 June 2016.

Referring to the update on Israeli-Palestinian campaign, Malcolm Cantello (Unison) welcomed that two companies had agreed to integrate human risk considerations into its business processes in accordance with UN Guiding Principles on Business and Human Rights. However there remained one company who the Fund invested in who had not made such a declaration. He asked that the Fund use its influence in line with British policy and encourage them to follow the position to be adopted by the other two companies. The Committee was informed that the Fund would pursue the matter through its engagement policy and with the Local Authority Pension Fund Forum (LAPFF).

Malcolm Cantello also updated the Committee on the recent Sports Direct Shareholders meeting where a resolution about working practices at the Company was supported by a number of shareholders. He indicated that it was useful that the issue had been highlighted nationally.

The Chair commented that the Fund was not an ethical body but it took its responsibilities seriously. Companies were changing their stance as a result of pressure from the Fund and collectively through LAPFF.

Resolved:

1. That the Fund's voting and the LAPFF's engagement activity for the three months ending 30 June 2016, including Appendix 1 be noted.
2. That the issues discussed by LAPFF as set in the Quarterly Engagement Report which is available on their website be noted:
http://www.lapfforum.org/Publications/engagement/files/Q2_2016_QER_FINALE.pdf
3. That an update on the Israeli-Palestinian engagement program and the outcome of shareholder resolutions on carbon management and climate change risk within the mining sector be noted.
4. That the arrangements being made to extend the contract for the Fund's Proxy Voting service provider and re-tender the LAPFF research and engagement partner be noted.
5. That the updating of the Fund's Compliance with the UK Stewardship Code for Institutional Investors be noted.

8 **Extension of investment advisors contract**

Geik Drever, Strategic Director of Pensions presented a report on the work undertaken by Hymans Robertson in its role as investment advisor to the Fund. Taking into account the Fund's expected requirements, the Strategic Director recommended that the services of Hymans Robertson be retained for an additional two years commencing November 2016.

Resolved:

That the Fund's contract with its investment advisor, Hymans Robertson be extended for an additional two year period.

9 **West Midlands Pension Fund Statement of Investment Principles**

Geik Drever, Strategic Director of Pensions presented for review and approval, the Fund's Statement of Investment Principles (SIP). Minor revisions had been made to the Statement.

Referring to the introduction in the Statement, Malcolm Cantello, Unison pointed out that there were three trade union representatives on the Fund and not two as indicated in the document.

Resolved:

That the Fund's Statement of Investment Principles be approved.

10 **West Midlands Integrated Transport Authority Pension Fund's Statement of Investment Principles**

The Committee received for review and approval, the West Midlands Integrated Transport Authority Fund's (WMITA's) Statement of Investment Principles (SIP).

Resolved:

That the WMITA Pension Fund's Statement of Investment Principles be approved.

11 **Annual Report and Accounts 2015/16**

David Kane, presented for approval the Fund's audited annual report for the year ending 31 March 2016. He informed the Committee that there had been no significant changes to the accounts since the last meeting and the figures remained unchanged from the draft accounts that were presented in June. He went on to explain the only change of significance related to a post balance sheet event note. He also informed Committee that it was anticipated that the Fund would receive an Unqualified Opinion from its external auditors, Grant Thornton. He also drew the Committee's attention to some of the audit findings from Grant Thornton and the Fund's management response to them

Ashley Wilson, Audit Manager, Grant Thornton was in attendance for this item. He confirmed that an Unqualified Opinion would be issued aswell as a Consistency Opinion. A letter of Management Representation had been requested and he hoped that the Chair of the Pensions Committee would view and sign the letter. He also informed the Committee that for a first year audit it had gone well with good levels of co-operation. However, some external investment managers failed to respond to the Auditor's requests for balances. It had been agreed that the Head of Finance would be provided with a list of points for him to follow up.

Cllr Ian Brookfield (Chair) and Geik Drever, Strategic Director of Pensions confirmed that the Fund would be following up on the issues with the external investment managers and make any necessary changes.

Resolved:

1. That the Annual Report for the year ending 31 March 2016, and its publication on the Fund's website following completion of the external audit be approved.
2. That Grant Thornton's draft annual audit report be noted.

12 **Service plan monitoring 2016/17 and quarterly accounts June 2016**

David Kane, Head of Finance presented the update report on performance against key performance indicators (KPIs); and the forecast outturn for the year against operating budgets and quarterly accounts as at the end of June 2016.

Responding to questions, the Head of Finance confirmed that the Fund's administrative cost per member was bench marked through the Chartered Institute of Public Finance and Accountancy (CIPFA) as a result of the Fund being a member of CIPFA. The Fund also compared favourably with the partner Funds on the Local Authority Pension Fund Forum (LAPFF) with whom the Fund also benchmarked itself. The Head of Finance also explained the reason for the difference between the actual and approved 2015/16 budget.

Rachel Brothwood, Director of Pensions also responded to questions on the key performance indicator (KPI) relating to deaths, and explained that performance in this area was consistent with that previously reported. The target of five days for notification of benefits payable to dependants from receiving the required information was being missed and on occasions was taking six days. Regarding performance on the issue of Annual Benefit Statements (ABS), it was confirmed that all ABS had been issued to eligible active members by 31 August 2016. Where an employer had not provided the Fund with the necessary information to enable it to issue an ABS to a member the Fund would send a letter to the member stating the reasons why.

The Chair commented that an issue for the Fund was how long it should wait for an employer to provide the Fund with the necessary information to issue an ABS before the Fund moved to seek full recovery of its costs from the employer.

Resolved:

1. That performance against the Fund's key performance indicators as at the end of June 2016 be noted.
2. That forecast outturn against operating budgets as at the end of June 2016, which is an under spend of £6.3 million be noted.
3. That it be noted that the quarterly accounts for the period ending 30 June 2016 show that:
 - the value of West Midlands Pension Fund at this date was £12.5 billion, an increase of £882.0 million from 31 March 2016;
 - the value of West Midlands ITA Pension Fund at this date was £472.7 million, an increase of £11.9 million from 31 March 2016.

13

Accounting policies 2016/17

David Kane, Head of Finance presented for endorsement, the accounting policies to be used in preparing the Funds' accounts for the 2016/17 financial year. No significant changes had been made to the policies from the 2015/16 Code.

Resolved:

That the Funds' accounting policies for the 2016/17 financial year be endorsed.

14

Risk and compliance monitoring - 1 April to 30 June 2016

Rachel Howe, Head of Governance, Pensions Service presented the report on the quarterly review of the Fund's top ten risks and feedback on the quarterly compliance monitoring programme.

Resolved:

1. That the top ten risks for the West Midlands Pension Fund be noted.
2. That the compliance issues that have arisen during the quarter and resolutions put in place be noted.

15 **Additional voluntary contributions - update**

Rachel Brothwood, Director of Pensions presented an update on the review of the Fund's additional voluntary contributions (AVCs) arrangements. The review was expected to conclude with recommended changes for consideration by Committee at the next meeting.

The Chair commented that the arrangements would make a positive impact for Fund members who decide to take up the offer and make ACVs.

Responding to a question from Malcolm Cantello, Unison regarding who would be responsible for the administration of AVCs, Geik Drever, Strategic Director of Pensions reported that individual members would decide what funds they buy.

Resolved:

That the review of the ongoing review and potential changes to the Fund's AVC arrangements be noted.

16 **Pensions administration report - 1 April to 30 June 2016**

Rachel Brothwood, Director of Pensions outlined the salient points from the update report on the work of the pensions administration service during the period 1 April to 30 June 2016 for both the Main Fund and the West Midlands Integrated Transport Authority Fund.

The Chair asked members of the Committee to notify the Fund's Member Services Team of locations for the Roadshow events bus to visit. The Director of Pensions undertook to arrange for a note/email to be circulated to the Committee with a link to locations for the Roadshow events.

Resolved:

1. That the write-offs detailed in section 8.0 of the report be approved.
2. That the four and a half year relicensing proposal for Civica's UPM2 Pension Administration software product as detailed in section 10 of the report be approved.
3. 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.
4. 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.

17 **Data Quality - quarterly update**

Rachel Brothwood, Director of Pensions presented an update report on the progress being made by the Fund to continue to improve data quality. The report also set out the performance attained by employers on delivery of the 2016 annual return and to summarise the plans in place to make further improvements to data quality and move to more frequent exchanges of data.

Responding to a question from Malcolm Cantello (Unison) the Strategic Director of Pensions confirmed that the issue regarding 49 employers not returning their data files on time had been overcome and the situation resolved. Also the employer referred to in a previous report who had been declared bankrupt had exited from the Fund. An interim dividend payment was expected from them but it would not cover the shortfall.

The Chair commented that the shortfall would be a cost to the Fund's members. The Strategic Director added that the Fund was still in discussions with the Department for Education regarding the matter.

Resolved:

1. That the progress and actions being taken to continue to improve data quality be noted.
2. That the Fund's transition to improve frequent exchange of data with employers be noted.

18 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

19 2016 Actuarial valuation - update

Rachel Brothwood, Director of Pensions outlined the salient points of the update report on the 2016 actuarial valuation.

Resolved:

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.

20 Investment pooling update

Geik Drever, Strategic Director of Pensions presented an update on progress regarding the pooling of investments in the Local Government Pension Scheme (LGPS).

Against the background of capacity issues to undertake all the work necessary for implementing investment pooling for LGPS Central, Malcolm Cantello (Unison) asked whether a message was being conveyed to the Department for Communities and Local Government (DCLG) suggesting that investment pooling be piloted rather than all Funds having to implement at the same time. The Strategic Director of Pensions reported that the capacity issues were well known by the DCLG and some parts of the Pensions industry were already running pilots and the LGPS Central had learned from them.

The Strategic Director of Pensions advised that it was hoped that the Go Live date would be before 1 April 2018, possibly in February 2018.

Resolved:

1. That the Chair of the Committee be nominated to represent West Midlands Pensions Fund/West Midlands Integrated Transport Authority on the Shareholders Forum/Joint Committee with the Vice Chair as substitute.
2. That the update on progress regarding the pooling of investments for LGPS Central be noted.

21

Employer covenant update

Rachel Brothwood, Director of Pensions presented an update on the review of the in-house monitoring framework, the employer covenant review aligned to the 2016 actuarial valuation and the individual cases arising from the on-going monitoring process.

During the ensuing discussion members of the Committee noted the update position on Wolverhampton College and that the Fund was in active dialogue with the employers who were on the watch list as part of the Fund's in house covenant monitoring exercise.

Resolved:

1. That the proposal and process for the fund-wide covenant review and segmentation be noted.
2. That the independent covenant reviews underway for district councils and West Midlands Integrated Transport Authority employers be noted.
3. That the focus upon the Further Education sector and the associated overview of Wolverhampton College be noted.