



Annual report 2014

West Midlands Pension Fund



West Midlands Pension Fund

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Chair's Statement

2013/2014 saw West Midlands Pension Fund focus on implementing the changes to the Local Government Pension Scheme (LGPS) from 1 April 2014. The changes encompassed many aspects including working with our software provider to ensure system changes were implemented, developing communication strategies to ensure all stakeholders were kept up to date with the important changes to the way pensions are calculated and training Fund staff and employers on new responsibilities and data requirements.

The implementation of LGPS 2014 does not see the end of changes for the LGPS and, in July 2014, we submitted our views on the Government's long-term plans to reform its structure. The Government's consultation document proposed the use of common investment vehicles (CIVs) throughout LGPS and greater use of passive investment management in order to achieve cost savings. The Fund supports further LGPS collaboration and other measures to achieve cost savings and efficiencies.

Changes to the governance structure of the LGPS will come into effect from 1 April 2015, and whilst more information on this will be published later in 2014, Fund officers are already working on planning for these changes.

The last twelve months also saw the Fund receive recognition for excellence in customer service and staff development with accreditations in Customer Service Excellence and Investors in People. The Fund gained the highly coveted Investors in People Silver Award which it achieved on its first attempt.

The Fund has worked hard over the past twelve months to strengthen its customer focus with member roadshows, retirement courses, employer events and further support of our employers in a series of LGPS 2014 employer events.

During the year, much work also went into the Fund's 2013 triennial actuarial valuation which involved extensive stakeholder consultation and negotiation with numerous participating employers. This was achieved in the context of a difficult economic environment, and funding parameters have now been agreed on how the employers' liabilities will be met going forward. Information relating to this and the actuary's final report can be found on the Fund's website at wmpfonline.com.

Needless to say, ensuring a cost-efficient service is a key consideration for the Fund and, as ever, the Fund works to continually identify changes where it can make its business more efficient and customer focused.

In closing, I would like to thank the officers of West Midlands Pension Fund for all their hard work. With their expertise and dedication, I am confident that the Fund is capable of meeting the challenges that lie ahead.

Councillor Thomas (Bert) Turner
Chair Of Pensions Committee

Date: September 2014



Director's Statement

2013/2014 was a busy year for West Midlands Pension Fund. From 1 April 2014, the Local Government Pension Scheme (LGPS) changed to a career-average revalued earnings (CARE) scheme and the Fund needed to implement the required changes in a swift and efficient manner ensuring there was minimal disruption to our service. In order to implement the changes, the Fund had to develop its computer systems which required us to work with our software provider to ensure our requirements were met, develop our communication strategies, ensure all stakeholders were kept up to date with the important changes to the way their pensions are calculated, as well as train Fund staff and employers on new responsibilities and data requirements. Through our efficient use of in-house resources and drawing on our expertise, we were able to implement the changes with minimum disruption to our members.

The changes which came into effect from 1 April 2014 are not the end of the changes to the LGPS as the Government continues to consult on a number of proposed reforms. In addition to the changes in how LGPS schemes are administered, the Government has outlined its proposals for how schemes should be governed after 1 April 2015. As part of that outline, the Government has issued draft regulations on the proposed new governance structures and, following engagement with members and employer representatives, the Fund has submitted a response to the consultation setting out how we think the requirements could be adopted by the Fund. In addition, we have responded to Government consultations on changes to the LGPS including the most recent one on collaboration, cost saving and efficiencies, and participated in various national LGPS Shadow Board sub-committees.

During 2013/14, the Fund worked through the planning phases of that valuation into its 2014 delivery. The Fund's valuation confirmed that the funding level had remained at 75%. The final valuation outcomes were achieved after extensive consultation and negotiation with our participating employers. This was achieved in the context of a difficult economic climate with significant financial pressures for the organisations concerned. In addition and in conjunction with the Fund actuary, the Fund published a *Funding Strategy Statement (FSS)* aligned to the valuation, which set out the funding parameters and identified how the employers' liabilities will be met going forward.

The Fund delivered a return of 3.5% for the year, outperforming its bespoke benchmark by 0.4%. The main contributors to the outperformance were good relative performances from the quoted equities and fixed interest portfolios. Over the medium term of three years, a 6% annualised return was achieved against a benchmark of 5.5% and over the longer term of ten years, 7.6% was delivered against a 7.5% benchmark, ahead of RPI and career earnings.

The Fund prides itself on the service it provides to our members and this was recognised in the reaccreditation of the Fund in Customer Service Excellence together with a new award of Investors in People (IIP), which the Fund achieved on its first attempt. The Fund was also shortlisted for a number of awards in the last year, including DB Communications (Public Sector), Best DB Scheme Awards and Innovation Award of the Year.

The Fund has worked hard over the past twelve months to strengthen its customer focus with member roadshows delivered on site, retirement courses, ensuring our staff are fully trained to answer queries on first contact together with our continued support of employers in a series of LGPS 2014 events as well as our AGM.



In consideration of our customers' needs and the feedback received, the Fund has developed a new website which is more accessible to our members with user-friendly screens and is now a better resource of information for our customers. The website, wmpfonline.com, also hosts a variety of documents including the Fund's policies and actuarial valuation report.

At the same time, in recognising the need for our website to be more user friendly, we have taken this approach one step further and created a web-portal facility for our members. This enables them to gain access to information about their pension, whether active or deferred, at the touch of a button. We first introduced our employers and members to our web portal last year and we have seen high levels of interest from all stakeholders which resulted in a large increase in the electronic exchange of data.

The strengthening of the Fund's electronic resources is of great importance for the forthcoming year as we look to reduce Fund costs, and therefore member costs. The Fund's cost per member is a key performance indicator that the Fund monitors closely and we are pleased to report that it reduced from £20.48 to £19.21 for the last financial year. The Fund has also implemented a new finance system from 1 April 2014 to deliver greater efficiency, improve reporting and drive better performance.

The processing of personal information has always been a hot topic and the Fund has continued to ensure the timely and appropriate management of our customer's personal information. Over the next few months, we will be assisting our employers with our bulk data import processes to ensure they meet the requirements set by the Pensions Regulator. Discussions with employers on how the bulk transfer process will work and what we require have proved successful thus far, and we will continue to build on those relationships as we implement the requirements.

The achievements of the past financial year have prepared us for the important challenges and tasks that will follow in the coming year including any future changes to the LGPS, and we will continue to face those challenges head on ensuring a secure future for our members' pensions.

Geik Drever
Director of Pensions

Date: September 2014

Pensions Committee 2013/2014

WOLVERHAMPTON CITY COUNCIL

- Councillor TH Turner* Chair
- Councillor Z Shah Vice-Chair
(until February 2014)
- Councillor P Bilson*
- Councillor M Evans
- Councillor S Evans
- Councillor M Heap*
- Councillor A Johnson
- Councillor L McGregor
- Councillor J Reynolds
- Councillor T Singh*
- Councillor S Samuels
- Councillor N Clarke (Trustee)
(until October 2013)

*Denotes member of Investment Advisory Sub-Committee

DISTRICTS

- Councillor M Afzal*
Birmingham City Council
- Councillor Z Ali*
Walsall MBC
- Councillor D Gannon*
Coventry City Council
- Councillor R Harris*
Dudley MBC
- Councillor A Martin*
Solihull MBC
- Councillor V Silvester*
Sandwell MBC

OBSERVER MEMBERS

- M Cantello Unison
- M Clift Unite
- I Smith Unite (retired)

ADMINISTERING AUTHORITY OFFICERS

- S Warren
Chief Executive

West Midlands Pension Fund

- G Drever
Director of Pensions
- N Perrins
Head of Pensions Administration
(retired March 2014)
- Simon Taylor
Acting Head of Pensions Administration
(appointed 1 April 2014)
- C Parlor
Head of Governance
(until March 2014)
- R Howe
Head of Governance
(appointed 15 May 2014)
- R Dhanani
Fund Accountant
(from December 2013)
- A Ellis
Communications Officer
- W Trainor
Chief Legal Officer
- M Taylor
Section 151 Officer

MAIN EXTERNAL ADVISERS AND SERVICE PROVIDERS

- Investments
Hymans Robertson LLP
- Property
CBRE Global Investors

J Fender
John Fender Consultancy
- Pension Scheme
Registration Number
10079176
- Actuary
Mercer Human Resource Consulting Ltd
- Custodian of Assets
HSBC Global Investment Services
- Banker
National Westminster
Bank plc
- Auditor
PricewaterhouseCoopers LLP
- AVC Providers
Prudential Assurance
Company Ltd

Equitable Life
Assurance Society
- Corporate Governance
Pensions Investment
Research Consultants (PIRC)

HMRC REFERENCES

- SCON number
S2700178F
- ECON number
E3900002R
- PSTR number
00329946RE
- PSTR sub-number
49/16109

JOINT CONSULTATIVE FORUM (JCF)

The subjects considered by the panel during 2013/2014 include the following:

- New LGPS 2014 proposals
- Lean systems update
- Pensions Administration Strategy
- Trustee Training Policy
- Public Service Pensions Bill
- Communications Policy 2013
- West Midland Pension Fund rebranding
- Policy statement for administering unclaimed benefits.

Participating Employers of the Fund At 31 March 2014

SCHEDULED BODIES

DISTRICT COUNCILS

- Birmingham City Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Metropolitan Borough Council
- Wolverhampton City Council

MAJOR EMPLOYERS

- Centro
- Police and Crime Commissioner West Midlands
- Staffordshire and West Midlands Probation Trust
- West Midlands Fire and Civil Defence Authority

UNIVERSITIES

- Birmingham City University
- Coventry University
- University of Wolverhampton (The)

COLLEGES OF FURTHER EDUCATION AND HIGHER EDUCATION

- Birmingham Metropolitan College
- Bournville College of Further Education
- Cadbury Sixth Form College
- City College, Coventry
- City of Wolverhampton College
- Dudley College of Technology
- Halesowen College
- Henley College
- Hereward College
- Joseph Chamberlain College
- King Edward VI College
- Sandwell College
- Solihull College
- Solihull Sixth Form College
- South and City College Birmingham
- Stourbridge College (*merged with Birmingham Metropolitan College 1 June 2013*)
- University College Birmingham
- Walsall College

OTHER BODIES

- Ace Academy - Education Central MAT (The)
- Acocks Green Primary Academy
- Alderbrook School
- Aldersley - Academies Trust
- Anand Free School
- Aldridge School - A Science College
- Arden Academy Trust
- ARK Academies
- ARK Kings Academy
- ARK Rose Primary Academy
- ARK Tindal Primary Academy
- Arthur Terry Learning Partnership
- Aston Manor Academy

- Aston University Engineering Academy
- Balsall Common Primary Academy
- Balsall Parish Council
- Bartley Green School
- Baverstock Academy - The Leap Academy Trust
- Bentley Heath Church of England Primary School
- Billesley Primary - Academy - The Elliot Foundation Academies Trust
- Birchills Academy - St Chads Academies Trust
- Birmingham Museums Limited
- Bishop Milner Catholic College - The St John Bosco CAT
- Bishop Vesey's Grammar School
- Bishop Walsh - John Paul II Multi-Academy
- Black Country University Technical College
- Blue Coat Church of England Academy Limited (The)
- BOA Birmingham Ormiston Academy
- Bramford Primary - Griffin Academy Trust
- Bristnall Hall Academy - The Academy Transformation Trust
- Broadway Academy
- Castle Bromwich Parish Council
- Caludon Castle School
- Charles Cuddy Walker Academy - Erudition Schools Trust
- Chelmsley Wood Town Council
- Cheswick Green Parish Council
- Chilwell Croft Academy
- Chivenor Academy - Griffin Schools Trust
- City Road Academy - Birmingham City University Academy Trust
- City of Wolverhampton Academy Trust
- Collegiate Academy Trust (The)
- Corngreaves Primary - United Learning Academies
- Coundon Court Academy
- Coventry and Solihull Waste Disposal Company Limited (The)
- CTC Kingshurst Academy
- Croft Primary Academy - The Elliot Foundation Trust
- Deanery Church of England School
- Dorrington Academy Trust
- E-ACT Heartlands Academy
- E-ACT North Birmingham Academy
- E-ACT Shenley Academy
- E-ACT Willenhall Academy
- Earls High School (The)
- EBN Free School
- Edgar Stammers Academy - Education Central MAT
- Education Central Multi Academy Trust
- Erdington Hall Primary Academy
- Ernsford Grange Community Academy - Sidney Stringer Academy Trust
- Fairfax School (Academy)
- Fairway School - Educational Central MAT
- Finham Park School
- Fordbridge Parish Council
- Four Dwelling Primary Academy - Academies Enterprise Trust
- Four Dwellings Secondary Academy - Academies Enterprise Trust
- George Betts Academy - The Elliot Foundation Academies Trust
- George Dixon Academy
- The Giffard Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC
- Golden Hillock Academy - Park View Educational Trust
- Goldsmith Primary Academy - Windsor Academy Trust
- Grace Academy
- Great Barr Primary School
- Greenholm Primary School
- Greenwood Academy - Academies Enterprise Trust
- Grestone Primary Academy
- Hall Green Secondary School
- Hamstead Hall Academy Trust
- Handsworth Wood Girls' Academy
- Harborne Academy
- Hawkesley Church Primary Academy
- Heart of England School
- Heath Park Academy - Central Learning Partnership Trust
- Hillcrest School and Sixth Form Centre
- Hill Farm Academy - Castle Phoenix Trust
- High Arcal School Academy Trust (The)
- Hockley Heath Academy
- Holy Cross - John Paul II Multi-Academy
- Holy Trinity C of E Primary Academy (Handsworth)
- Holly Hall Academy
- Holyhead School
- James Brindley School
- John Henry Newman Catholic College
- Joseph Leckie Academy Trust
- Jubilee Academy Mossley - ATT
- Jubilee Park Academy Trust
- King Edward VI Aston School (Academy)
- King Edward VI Camp Hill School for Boys (Academy)
- King Edward VI Camp Hill School for Girls (Academy)
- King Edward VI Five Ways School (Academy)
- King Edward VI Handsworth School (Academy)
- King Edward VI Sheldon Heath Academy
- Kings Norton Girl's School and Language College
- Kings Rise Academy - The Elliot Foundation Academies Trust
- Kingshurst Parish Council
- Kingswinford School and Science College (The)
- Knowle C of E Primary Academy
- Langley School
- Lea Forest Primary Academy - Academies Enterprise Trust

Participating Employers of the Fund At 31 March 2014

SCHEDULED BODIES

- Leigh Primary Academy - Leigh Trust
- Light Hall School
- Lode Heath School
- Lordswood Boys School - Lordswood Academies Trust
- Lordswood Girls School and Sixth Form Centre - Lordswood Academies Trust
- Mansfield Green E-ACT Academy
- Matrix Academy Trust
- Meriden Parish Council
- Merritts Brook E-ACT Primary Academy
- Mesty Croft Academy
- Moor Green Primary Academy - HTI MAT
- Montgomery Primary Academy - Academies Enterprise Trust
- Moseley Park School - Central Learning Partnership Trust
- Nansen Primary School - Park View Educational Trust
- Nechells Primary E-ACT Academy
- Ninestiles Academy Trust
- Nishkam School Trust
- Oaklands Primary - Ninestiles Academy Trust
- Oasis Community Learning - Foundry Primary
- Oasis Community Learning - Hobmoor Primary
- Oasis Community Learning - Matthew Boulton
- Oasis Community Learning - Short Heath Primary
- Oasis Community Learning - Blakenhall Infants
- Oasis Community Learning - Blakenhall Junior
- Oasis Community Learning - Woodview School
- Ocker Hill Academy Trust
- Oldbury Academy
- Oldknow Academy
- Orchards Primary Academy - Education Central MAT (The)
- Ormiston Academies Trust
- Ormiston Forge Academy
- Ormiston George Salter Academy
- Ormiston Sandwell Community Academy
- Park Hall Academy
- Park Hall Infant Academy
- Park Hall Junior Academy
- Park View Educational Trust
- Parkfields Academies Trust
- Pegasus Academy - Ninestiles Academy Trust
- Percy Shurmer Primary School
- Perry Beeches - The Academy
- Perry Hall Primary School
- Plantsbrook School
- President Kennedy School
- Queen Mary's High School (Walsall)
- Q3 Academy
- Queen Mary's Grammar School (Walsall)
- Radford Primary Academy - Sidney Stringer Academy Trust
- Reaside Academy - Education Central MAT
- Reach Free School
- Reedswood E-ACT Primary Academy
- Redhill School
- Rivers Primary Academy - Windsor Academy Trust
- Robin Hood Academy
- Rookery School
- Rough Hay Primary - Elliot Foundation Trust
- RSA Academy
- Ryder Hayes Academy Trust
- Sandwell Academy
- Sandwell Leisure Trust
- Sheffield Community Academy
- Shireland Hall Academy - The Elliot Foundation Academies Trust
- Shire Oak Academy Trust
- Shirestone Community Academy - The Elliot Foundation Academies Trust
- Sidney Stringer Academy Trust
- Smestow School - Education Central MAT
- Smiths Wood Parish Council
- Solihull Community Housing Limited
- SS Mary and John's Catholic Primary Academy - Bishop Cleary Catholic MAC
- St Bartholomew C of E Academy
- St Chad's Academy - The St John Bosco CAT
- St Clement's C of E Academy Nechells
- St Edmund's Catholic Academy - Bishop Cleary Catholic MAC
- St George's Academy C of E Academy
- St George's Academy Newtown
- St John's C of E Primary School
- St John's and St Peters C of E Academy
- St Joseph's - John Paul II Multi-Academy
- St Joseph's Academy - The St John Bosco CAT
- St Jude's Academy - The Wulfrun Academies Trust
- St Laurence's Primary Academy - Diocese of Coventry MAT
- St Mary's C of E Junior & Infants School
- St Michael's Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC
- St Michael's C of E Primary School Bartley Green
- St Michael's C of E Primary Academy Handsworth
- St Nicholas' - John Paul II Multi-Academy
- St Patrick's Church of England Primary Academy
- St Peter's Church of England Academy Trust
- St Teresa's Catholic Primary Academy - Bishop Cleary Catholic MAC
- Streetly Academy (The)
- Stretton Primary Academy - Diocese of Coventry MAT
- Sutton Coldfield Grammar School for Girls Academy Trust
- Tame Valley Academy - Education Central MAT
- The Blue Coat Church of England Academy
- The Mirus Academy - Walsall College Academies Trust
- Three Spires Academy - RNIB Specialist Learning Trust
- Tile Hill Wood School and Language College
- Timberley Academy Trust
- Timbertree Primary - United Learning Academies
- Tiverton Academy - Elliot Foundation Trust
- Tudor Grange Academy Solihull Trust
- Tudor Grange Primary Academy
- Twickenham Primary Academy
- Valuation Tribunal Service (*formerly Birmingham Valuation Tribunal*)
- Victoria Park Primary Academy
- Walsall City Academy Trust Limited
- Walsall Studio School - The Vine Trust
- Warren Farm Primary School
- Washwood Heath Academy
- Waverley Studio School
- West Walsall E-ACT Academy
- Westwood Academy
- Whitley Academy
- Wilson Stuart School
- Windsor High School and Sixth Form
- WMG Academy for Young Engineers
- Woden Primary - Central Learning Partnership Trust
- Wodensborough Academy - Ormiston Academies Trust
- Wolverhampton Homes
- Woodhouse Primary Academy - Education Central MAT
- Wood Green Academy
- Woodlands Academy
- Woodlands Academy of Learning
- Yardleys School
- Yarnfield Academy - Ninestiles Academy Trust

OTHER BODIES WITH NO ACTIVE MEMBERS

- Bickenhill Parish Council
- Sandwell Homes Limited

Participating Employers of the Fund At 31 March 2014

COMMUNITY OF INTEREST ADMISSION BODIES - ADMITTED BODIES

WITH ACTIVE MEMBERS

- 4 Towers TMO Limited
- Acivico (Building Consultancy)
- Age Concern Construction and Facilities Management)
- ACUA Limited
- Age Concern Birmingham
- Age Concern Birmingham (VSOP)
- Age Concern Wolverhampton - *terminated 31 March 2014*
- Aston University - *terminated 31 May 2013*
- BID
- Black Country Consortium Limited
- Black Country Museum Trust Limited (The)
- Black Country Partnership NHS Foundation Trust
- Bloomsbury Local Management Organisation Limited
- BME United Limited
- Broadening Choices for Older People
- Brownhills Community Association Limited
- Bushbury Hill Estate Management Board Limited
- Chuckery Tenant Management Organisation Limited
- Coventry Heritage and Arts Trust - *terminated 31 July 2013*
- Coventry Law Centre Limited
- Coventry Sports Trust Limited
- Culture Coventry
- CSW Partnership Limited
- Delves East Estate Management Limited
- Dovecotes TMO
- Edith Cadbury Nursery School
- Family Care Trust
- Friendship Care and Housing Limited
- Heart of England Care - *terminated 2 June 2013*
- Home Start Northfield
- Home Start Stockland Green/Erdington
- Home Start Walsall
- Leamore Residents Association Limited
- Leisure and Community Partnership Limited - *terminated 30 September 2013*
- Lieutenancy Services (West Midlands) Limited
- Life Education Centres West Midlands
- Light House Media Centre
- Manor Farm Community Association
- Marketing Birmingham Limited
- Midland Heart Ltd
- Millennium Point Trust
- Murray Hall Community Trust Limited
- Murray Hall Community Trust (Oldbury)
- Murray Hall Community Trust (Rowley)
- Murray Hall Community Trust (Wednesbury)
- Museum of British Road Transport Trust (Coventry) Limited - *terminated 31 July 2013*

- Mytime Active
- New Heritage Re-Generation Ltd
- New Park Village Tenant Management Organisation
- Northern Housing Consortium Limited
- Optima Community Association
- Palfrey Community Association
- Penderels Trust Limited (The)
- Pool Hayes Community Association
- Riverside Housing Association Limited (*formerly Riverside Group Limited*)
- S4E Ltd
- Sandwell Arts Trust - *terminated 30 November 2013*
- Sandbank Tenant Management Organisation Limited
- Sandwell Community Caring Trust (The)
- Sandwell Community Caring Trust (Sandwell Care Homes)
- Sandwell Inspired Partnership Services
- Sandwell Leisure Services
- Sickle Cell and Thalassaemia Support Project (Wolverhampton)
- Solihull Care Limited
- St Columba's Day Care Centre
- Steps to Work (Walsall) Ltd
- Titan Partnership
- Voyage Care Limited
- Walsall Housing Group Limited
- WATMOS Community Homes
- West Midlands Transport Information Services Limited - *terminated 20 April 2013*
- Whitefriars Housing Group Limited
- Wildside Activity Centre
- Wolverhampton Grammar School
- Wolverhampton Network Consortium - *terminated 30 November 2013*
- Wolverhampton Voluntary Sector Council

WITHOUT ACTIVE MEMBERS

- Adoption Support
- All Saints Haque Centre
- Aquarius Action Projects
- Asian Welfare Centre
- Asian Women's Adhikar Association (AWAAZ)
- Belgrade Theatre Trust (Coventry) Limited
- Bilston and Ettingshall SureStart
- Birmingham and Solihull Connexions Services
- Birmingham and Solihull Learning Exchange (The)
- Birmingham Heartlands Development Corporation
- Black Business in Birmingham
- Black Country Connexions
- Black Country Museum Development Trust (The)
- Burrowes Street Tenant Management Organisations Limited

- BXL
- Cannon Hill Trust (*now Midlands Arts Council*)
- Cerebral Palsy Midlands
- Community Justice National Training Organisation
- Coventry Voluntary Service Council
- CV One Limited
- Druids Heath TMO
- Dudley Zoo Development Trust
- East Birmingham Family Service Unit
- Heath Town Estate Management Board
- Job Change Limited
- Metropolitan Authorities Recruitment Agency (METRA)
- Moseley and District Churches Housing Association Limited
- National Urban Forestry Unit
- National Windows (Homes Improvements) Limited
- Newman College
- Priory Family Centre CIC Limited
- Relate
- Roman Way Estate CIC
- Sandwell Regeneration Company Limited
- Smethwick Asra Limited
- Solihull Care Trust
- Solihull Community Caring Trust
- South Birmingham Family Services Unit
- South Warwickshire Tourism Limited
- Springfield/Horseshoe Housing Management Co-operative Ltd
- St Basil's Centre
- Sunderland ARC Limited
- The Chris Laws Day Care Centre for Older People
- TSB Bank plc (*formerly Birmingham Municipal Bank*)
- University of Birmingham
- University of Warwick
- Walsall Enterprise Agency Limited
- Walsall Regeneration Company Limited
- Wednesbury Action Zone
- West Bromwich Afro-Caribbean Resource Centre
- West Midlands Councils (*formerly West Midlands Leaders Board*)
- West Midlands (West) Valuation Tribunal
- West Midlands Examinations Board (The)
- West Midlands Local Authorities Employers' Organisation
- Wolverhampton Community Safety Partnership
- Wolverhampton Development Corporation Limited
- Wolverhampton Family Information Service Limited
- Wolverhampton Race Equality Council

Participating Employers of the Fund At 31 March 2014

TRANSFeree ADMISSION BODIES

WITH ACTIVE MEMBERS

- Action for Children (Smethwick)
- Action for Children (West Bromwich)
- Agilisys Limited (Rowley/Smethwick)
- Agilisys Limited (OCOS/WODO/Tipton)
- Alliance in Partnership - Camp Hill
- Alliance in Partnership - Ernesford Grange
- Alliance in Partnership - President Kennedy
- Alliance in Partnership - Stoke Park
- Amey Highways Limited
- Amey LG Limited
- Aspen Services Ltd (Gosford Park)
- APCOA Parking (UK) Limited - *terminated 13 February 2014*
- Balfour Beatty Living Places (Coventry) (*previously Balfour Beatty Workplace Limited - Coventry*)
- Barnardos (Sandwell)
- BAM Construct UK Limited
- Bespoke Cleaning Services Limited
- British Telecom plc - *terminated 31 March 2014*
- Capita IT Services Limited
- Call First Cleaning
- Carillion (Highfield & Pennfields)
- Cofely Work Place Limited (*formally Balfour Beatty Workplace Limited - Birmingham*)
- Creative Support Limited
- DRB Contract Cleaning Limited (Hawthorn School)
- DRB Contract Cleaning Limited (Yew Tree Primary)
- DRB Contract Cleaning Limited (Wychall Primary School)
- Enterprise Managed Services Ltd - Solihull
- Enterprise Managed Services (W-ton)
- Enterprise AOL Managed Services (Telford/Wrekin)
- Elite Cleaning and Environmental Services
- European Electronique Ltd (Tile Hill School)
- Galliford (UK) Limited
- Harrison Catering Services Limited
- Housing 21
- Initial Catering Services (Rowley)
- Initial Catering Services Limited (Smethwick)
- Integral UK Limited
- Interserve FM Limited (Rowley Campus)
- Interserve FM Limited (OCOS/WODO/Tipton)
- KGB Cleaning & Support Services Limited (Bishop Ullathorne)
- KGB Cleaning and Support Services Limited (Alderbrook)
- KGB Cleaning and Support Services Ltd (Lyndon)
- Lawrence Cleaning Limited (Parkfields)
- Lawrence Cleaning Limited (St Stephens)
- Leisure Living Limited

- Lend Lease Construction (EMEA) Limited (Four Dwellings School)
- Lend Lease Construction (EMEA) Limited (E-ACT)
- Lend Lease Construction (EMEA) Limited (George Dixon)
- Lend Lease Construction (EMEA) Limited (Moseley School)
- Lend Lease Construction (EMEA) Limited (Park View School)
- Lend Lease Construction (EMEA) Limited (Saltley School)
- Lend Lease Construction (EMEA) Limited (Stockland Green Broadway School)
- Lend Lease Construction (EMEA) Limited (Waverley School)
- Lend Lease FM Limited (Broadway School)
- Lend Lease FM (EMEA) Limited (George Dixon School)
- Lend Lease FM (EMEA) Limited (HM and Stockland Green School)
- Lend Lease FM (EMEA) Limited (International School)
- Lend Lease FM (EMEA) Limited (Moseley School)
- Lend Lease FM (EMEA) Limited (Park View School)
- Lend Lease FM (EMEA) Limited (Saltley School)
- Mears Group plc
- Mears Limited
- Mitie PFI Limited
- Mouchel Limited
- NSL Limited (Birmingham)
- NSL Limited (Solihull)
- Pell Frishman Consultants Limited
- Places For People Leisure Limited (Wolverhampton)
- Places For People Leisure Limited (Harborne Pool)
- Premier Security Services Limited
- Premier Support Services Limited (Alumwell Junior School)
- Premier Support Services Limited (Alumwell Infant School)
- Premier Support Services Limited (St Edmund Campion School)
- Premier Support Services Limited (Hodge Hill School)
- Premier Support Services Limited (Streetly School) - *terminated 27 October 2013*
- Premier Support Services Limited (Trinity RC)
- Quadron Services Limited
- Redcliffe Catering Limited (Calthorpe School)
- Regent Office Care Limited (COWAT)
- Regent Office Care Limited (Henley College)

- Regent Office Care Limited (Willenhall)
- Serco Limited (Sandwell)
- Serco Limited (Walsall) - *terminated 31 May 2013*
- Service Birmingham Limited
- Sodexo Limited
- Tarmac Limited
- Taylor Shaw Limited (Colton Hills)
- Taylor Shaw Limited (COWAT)
- Taylor Shaw Limited (Great Barr School)
- Willmott Dixon Partnership Limited (North Contract)
- Willmott Dixon Partnership Limited (South Contract)

WITHOUT ACTIVE MEMBERS

- Accord Operations (Birmingham)
- Alliance in Partnership - Aston
- APCOA Parking (UK) Limited Solihull
- AWG Facilities Services Limited
- Birmingham Accord Limited
- Bovis Lend Lease Management Services
- Central Parking Systems
- Enterprise (AOL) Limited (Shrewsbury)
- Enterprise (AOL) Limited (Shropshire)
- Forest Community Association
- GF Tomlinson Birmingham Limited
- Icare GB Limited
- Interserve Construction Limited (Smethwick Campus)
- Interserve Construction Limited (OCOS/WODO/Tipton Schools)
- Interserve Construction Limited (Rowley Campus)
- Interserve Facilities Management Ltd (Smethwick)
- JDM Accord Limited (Shrewsbury & Atcham)
- JDM Accord Limited (Shropshire)
- JDM Accord Limited (Tamworth)
- JDM Accord Limited (Telford & Wrekin)
- Kite Food Services Limited
- Lawrence Cleaning Limited (Woodthorne School)
- Liberata UK Limited
- Methodist Homes for the Aged
- Mitie Cleaning (Midlands) Limited - Birmingham City Council
- Mitie Managed Services (S&SW) Limited
- Mitie Managed Services (S&SW) Limited - Coventry
- Mitie Cleaning (Midlands) Limited - Wednesfield
- Mitie Property Services (UK) Limited
- MLA West Midlands
- Morrison Facilities Services Limited
- Redcliffe Catering Limited (Bordesley Green Girls School)
- Redcliffe Catering Limited (Camp Hill School)

Participating Employers of the Fund At 31 March 2014

TRANSFEEE ADMISSION BODIES

- Regent Office Care Limited (Hereward)
- Regent Office Care Limited (City College, Coventry)
- Regent Office Care Limited (Whitefriars)
- Research Machines plc
- RM Education plc
- Revenue Management Services
- Select Windows (Homes Improvements) Limited
- Serco Limited (Stoke)
- Service Team Limited
- Strand Limited
- Superclean Services
- Target Excel plc (Magistrates Courts)
- Target Excel plc (Solihull MBC)
- Target Excel plc (Walsall MBC)
- Taylor Shaw Limited (St Albans)
- Taylor Shaw (Hodge Hill)
- Technology Innovation Centre
(terminated 31 March 2009)
- Temple Security Limited
- Thomas Vale Construction plc
- Veolia Environmental Serviced Cleanaway (UK) Limited
- Vertex Data Science Limited
- Wates Construction Limited (Birmingham)
- West Midlands E-Learning Company

OTHER MAJOR EMPLOYERS WHO HAVE PARTICIPATED IN THE FUND

- Birmingham International Airport plc
- Department of Transport
- Department of Health and Social Security
- Severn Trent Water Authority
- West Midlands Magistrates Courts Committee

Member Training Report

The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator and, accordingly, an increased emphasis on trustee training. The trustee training policy was approved in November 2012 with an agreed target of three days (21 hours) per annum. By implementing and participating in the trustee training policy, Committee members as well as officers of the Fund will be well placed to make better-informed decisions and, consequently, will be able to comply with the increased requirements of the regulator and the overarching governance requirements of the new scheme.

A major factor in the governance arrangements of the Fund is to ensure that Committee and Forum members and officers have the relevant skills and knowledge through application of the *CIPFA Knowledge and Skills Framework*. Six areas of knowledge and skills have been identified as core technical requirements for those members associated with LGPS pension funds:

| | | |
|---|---|--|
| Pensions legislation and governance context | Pension accounting and auditing standards | Financial services procurement and relationship management |
| Investment performance and risk management | Financial markets and products knowledge | Actuarial methods, standards and practices |

Arrangements for regular training are in place with training delivered through a number of methods including external seminars and events, Committee meetings, specific briefings and research material. Training activity undertaken is recorded on a training database and quarterly returns are sent out to all trustees asking them to record additional activity such as online study or reading.

In the year 2013/14, training included:

- induction training and one-to-one training for all new and returning Committee and Forum members;
- presentations to the Pensions Committee;
- risk workshop;
- investment training covering a number of asset classes, global markets and property investment strategy;
- seminars and conferences offered by industry-wide bodies such as LGC, NAPF and LAPFF;
- Fund events such as employer AGM and seminars covering actuarial valuation, LGPS update and investment strategy; and
- LGPS 2014 update, scheme changes and consultations.

All new members undertook induction training and a total of 302.50 training hours were undertaken in 2013/14 with eight members exceeding or near the three days (21 hours) requirement.

ESG investing (environmental, social and governance) is another area of member development and training. The Fund is a member of LAPFF, which is a body consisting of 60 UK public funds that engages with investee companies on issues such as climate change, child labour and breaches of the Combined Code. The Chair of the Pensions Committee attends LAPFF meetings and its activities are reported on a quarterly basis to other members of the Pensions Committee. LAPFF also advise on other areas including best practice and members receive presentations from managers specialising in ESG investment.

LAPFF holds an annual two-day conference which Committee and Forum members attended, covering additional topics in addition to those mentioned above and issues addressed at the 2013 conference included:

- the future of the Local Government Pension Scheme;
- national LGPS procurement framework, "How to save time and money";
- licence to operate - community responsibilities of companies;
- social impact investing;
- good directors;
- media standards debate;
- investor collaboration; and
- capitalism without owners will fail.

Details of the training reports and presentations provided to the Pensions Committee and Investment Advisory Sub-Committee during 2013/2014 are as follows:

| | |
|---|-------------------|
| Property review and annual strategy 2013/14 - CBRE | 26 June 2013 |
| ESG investments - Bridges Ventures Review of absolute return portfolio - Hymans Robertson | 3 July 2013 |
| An overview of hedge funds - BlackRock Insurance-linked investments - Credit Suisse Agriculture sub-asset class - Permira | 17 September 2013 |
| Emerging markets - Foreign and Colonial | 11 December 2013 |
| An overview of global custody - HSBC | 26 March 2014 |

Member Training Report

In summary, the Fund invests significant resources into the development of its Committee and Forum members, firmly believing that the returns over the long term are essential to the effective governance and management of the Fund.

| Area | Pensions Committee Reports | Presentation | Sub-Committee | | | | Off-site Training & Education |
|---------------------------|----------------------------|--------------|---------------|--------------|---------------------------|---------|-------------------------------|
| | | | Reports | Presentation | Conferences/Seminars | Visits | |
| Investment governance | ✓ | | | | LAPFF December Conference | Partial | ✓ |
| Investment | | | | | | | |
| i) Strategies | ✓ | Occasionally | ✓ | Occasionally | | ✓ | ✓ |
| ii) Asset use | ✓ | | | ✓ | ✓ | | ✓ |
| iii) Corporate governance | ✓ | | | ✓ | | | |
| iv) Economies | ✓ | Quarterly | | ✓ | ✓ | | ✓ |
| Role of members | ✓ (Annual/Website) | | | | | | |

Introduction to the Fund

The Fund's core objectives

- to become a top-performing fund;
- to achieve target investment returns;
- to provide excellent customer service;
- to improve funding levels.

The aims of the Fund

- To encourage membership;
- To enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies, having regard to the benefits being paid and those due to be paid at a future date;
- To manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirement which lead to a strain on the Fund;
- To ensure that sufficient resources are available to meet all liabilities as they fall due via maximising returns from investments within reasonable risk parameters;
- To achieve excellent customer care whilst continuing to improve service delivery.

The issues and challenges facing the Fund

- **The affordability of the LGPS, which has various elements:**

- delivering the investment strategy and returns over time that ease the pressure on funding levels;
- responding to legislation changes in benefits awarded (such as LGPS 2014);
- monitoring and working to increase membership of the Fund;
- communicating Fund issues to interested parties;

- **Demonstrating value for money.**

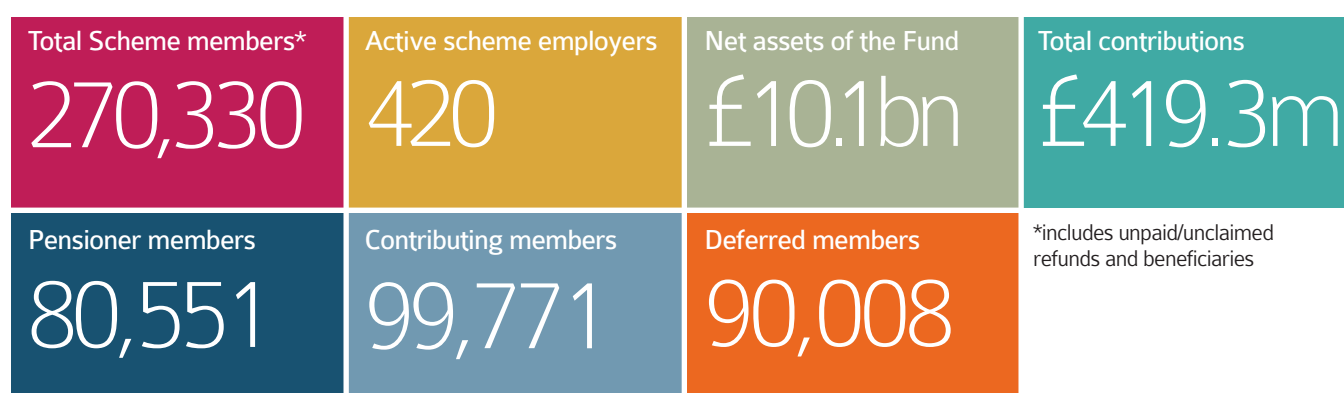
- **Demonstrating good governance in terms of the arrangements for managing the LGPS in the West Midlands, the individual investment holdings and the decision-making process.**

- **Responding to the expectations of Government, the public, interested groups, etc. around:**

- corporate company behaviour of the Fund's investments;
- sustainability;
- social responsibility;
- demand for effective and efficient communication and/or access to information;
- requirement for public organisations to demonstrate efficient delivery of services and value-for-money.
- responding to changes in regulation, including investment, corporate governance and administration activities.

The Fund has 270,330 members and 420 scheme employers as at 31 March 2014. The Fund aims to provide a quality service delivered cost effectively and within a published timescale. There are three main categories of membership, comprising of actively contributing members (99,771), members who have left employment or opted out of the scheme have a deferred entitlement to pension benefits (90,008) and members in receipt of pensions (80,551 including beneficiaries).

A diversified portfolio of assets amounting to £10.1bn is managed primarily in-house by a team of investment professionals, having due regard to risk and return objectives and liability requirements.



Operations Report

Since the last report, we have continued to implement a 'performance culture' ethos into the daily operational activities of the Fund. This year, pension administration undertook a comprehensive review of its key performance indicators to ensure these were aligned to The Pension Regulator's (TPR) requirements and those of the business's needs.

The focus will now move onwards to consistently improving data quality standards following TPR parameters. Operational staff completed their professional qualifications in pensions and project management (Prince 2). These qualifications are important as they will assist staff to deliver changes to regulations and help employers understand their responsibilities, in terms of data exchange, and the changes required to payroll systems for these new regulations.

Of particular importance was the Fund's focus on implementing the changes to the Local Government Pension Scheme (LGPS) from 1 April 2014. The changes included many aspects including working with our software provider to ensure system changes were implemented, developing communication strategies to ensure all stakeholders were kept up to date with the important changes to the way pensions are calculated and training Fund staff and employers on new responsibilities and data requirements for the new Scheme.

The Fund also undertook the triennial actuarial valuation in conjunction with the Fund actuary. The final valuation outcomes were achieved after extensive consultation and negotiation with participating employers. This was achieved in the context of a difficult economic climate with significant financial pressures for the organisations concerned. In addition, the Fund published a *Funding Strategy Statement (FSS)* aligned to the valuation, which sets out the funding parameters and identifies how the employers' liabilities will be met going forward.

As with the previous year, the number of new employers admitted to the Fund has grown exponentially. As local authorities continued with outsourcing programmes, more organisations required admitted body status and more schools elected to convert to academy status. The current number of employers participating in the Fund stands at over 420 as at March 2014.

Pensions Committee and JCF receive a quarterly statistical report demonstrating trends and service increases, particularly at notification periods for deferred and annual benefits statements. Fund administration staff continue to focus heavily on the need to cleanse all data being received from employers; this is a vital exercise especially with forthcoming scheme changes and the emphasis placed upon this area by TPR.

The Fund held both an annual general meeting and a mid-year review for participating employers to discuss a number of relevant issues which also increased the emphasis on partnership working. These meetings were an important part of the continual engagement process with employers.

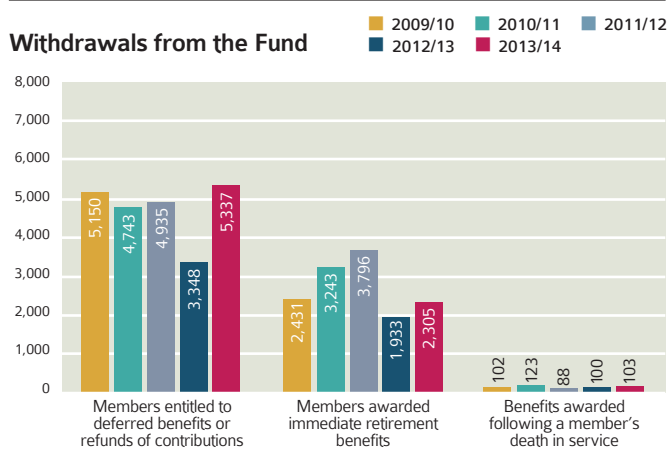
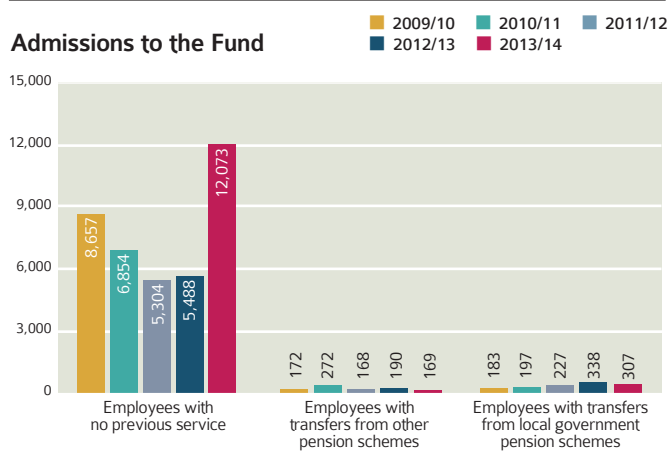
The Fund aims to revise its current *Pensions Administration Strategy* to represent a comprehensive reflection of its key objectives in line with the *Service Plan* and desired outcomes. One of the key aspects in this area will be the inclusion of all employers in electronic working by 2015.

At the Fund, continuous improvement is always a key consideration in our daily operational activities as we aim to work together and in partnership with our employers, service contractors and partners to put the requirements and expectations of all our customers first in the delivery of our service. We strive to make the complex topic and function of pension administration into a simpler, straightforward service for all our customers. The Fund is committed to this through high team and individual performance.

In terms of the current scheme, membership has not varied tremendously as the table below denotes; however, as a fund, we continue to monitor trends, including opt-out patterns, and utilise events, publications and employer engagement to ensure a robust membership for the future via targeted member participation campaigns.

Since April 2013, the Fund continues to see improvements in longevity as shown in the table on the next page; however, during the year, the Fund dealt with 150 death-in-service cases. A total of 6,016 members have joined the scheme since 2013, of which 338 were employees transferring in from other local government funds and 190 transferred into the scheme from private schemes or other pension arrangements.

Membership Movements



Operations Report

There were 1,933 retirements where members had left LGPS with immediate entitlement to benefits and a further 1,751 benefits were put into payment following the member reaching an age at which a deferred benefit could be bought into payment automatically, or where the member had elected to do so earlier than their normal retirement age. The Fund also dealt with deferring members who ceased membership of the Fund before becoming entitled to the payment of immediate benefits. In total, there were 3,348 such cases.

At the Fund, continuous improvement is always a key consideration in our daily operational activities as we aim to work together, and in partnership with our employers, service contractors and partners to

put the requirements and expectations of all our customers first in the delivery of our service. We strive to make the complex topic and function of pension administration into a simpler, straightforward service for all our customers.

Simon Taylor

Acting Head of Pensions Administration,
West Midlands Pension Fund

Date: September 2014

Number of Members

| Status (age in years) | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 |
|-----------------------|----------|-----------|------------|------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Active | - | - | - | 501 | 3,526 | 6,055 | 8,794 | 9,787 | 14,092 | 18,537 | 18,205 |
| Beneficiary pensioner | 9 | 45 | 135 | 240 | 99 | 13 | 11 | 22 | 79 | 173 | 357 |
| Deferred | - | - | - | 54 | 1,188 | 4,669 | 7,281 | 8,070 | 11,547 | 15,381 | 15,283 |
| Deferred ex-spouse | - | - | - | - | - | - | - | 1 | 17 | 43 | 52 |
| Pensioner | - | - | - | - | - | - | 5 | 18 | 79 | 289 | 693 |
| Pensioner deferred | - | - | - | - | - | - | - | - | - | 4 | 1 |
| Pensioner ex-spouse | - | - | - | - | - | - | - | - | - | - | - |
| Preserved refund | - | - | - | 9 | 56 | 250 | 616 | 853 | 1,156 | 1,552 | 1,468 |
| | 9 | 45 | 135 | 804 | 4,869 | 10,987 | 16,707 | 18,751 | 26,970 | 35,979 | 36,059 |

| Status (age in years) | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|-----------------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|------------|-----------|----------------|
| Active | 12,796 | 5,920 | 1,318 | 230 | 9 | 1 | - | - | - | - | 99,771 |
| Beneficiary pensioner | 555 | 847 | 1,318 | 1,571 | 1,865 | 1,871 | 1,279 | 699 | 146 | 21 | 11,355 |
| Deferred | 13,242 | 4,856 | 268 | 75 | 35 | 78 | 52 | 14 | - | - | 82,093 |
| Deferred ex-spouse | 54 | 14 | - | - | - | - | - | - | - | - | 181 |
| Pensioner | 3,611 | 14,678 | 18,703 | 12,611 | 8,712 | 5,702 | 2,845 | 1,035 | 173 | 16 | 69,170 |
| Pensioner deferred | 5 | 3 | - | - | - | - | - | - | - | - | 13 |
| Pensioner ex-spouse | - | 7 | 11 | 3 | 2 | 2 | 1 | - | - | - | 26 |
| Preserved refund | 1,064 | 491 | 58 | 40 | 41 | 20 | 23 | 22 | 2 | - | 7,721 |
| Total | 31,327 | 26,816 | 21,676 | 14,530 | 10,664 | 7,674 | 4,200 | 1,770 | 321 | 37 | 270,330 |

Key Membership Statistics

| Year | Active | Deferred | Preserved refunds | Pensioner | Beneficiary | Totals |
|---------------|---------|----------|-------------------|-----------|-------------|----------------|
| 31 March 2010 | 104,612 | 69,605 | 8,181 | 56,433 | 10,438 | 249,269 |
| 31 March 2011 | 102,011 | 73,040 | 8,121 | 59,833 | 10,688 | 253,693 |
| 31 March 2012 | 95,478 | 76,422 | 8,045 | 64,280 | 10,948 | 255,173 |
| 31 March 2013 | 97,330 | 78,679 | 7,830 | 66,461 | 11,024 | 261,324 |
| 31 March 2014 | 99,771 | 82,287 | 7,721 | 69,170 | 11,381 | 270,330 |

Active members

The Fund has a total active membership of **99,771**. Since 31 March 2013, the number of contributing employees in membership has increased by **2,441**.

Deferred members

These are former contributors who have left their pension rights with the Fund until they become payable at normal retirement date.

Pensioner members

Pensions and other benefits amounting to **£472m** each year are paid to retired members,

Financial Services Report

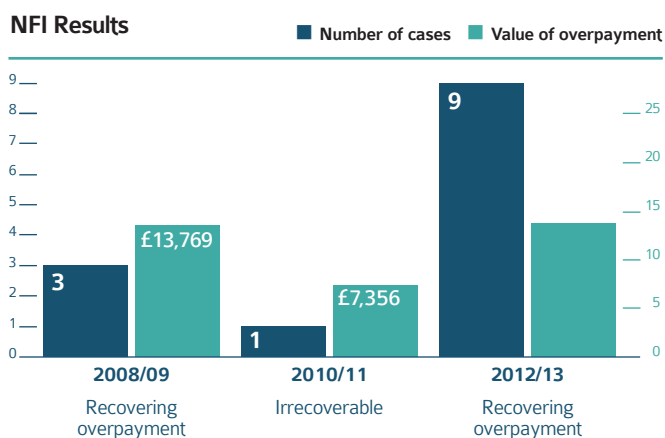
The primary functions performed by the Financial Services division are the payment of pensions, the collection of employer and employee contributions and day-to-day accounting for the Fund.

The administration and payroll computer system is used to pay over £472 million per year to over 80,000 pensioner and beneficiary members. The number of members being paid has increased by 4% in the year, which reflects the continued consequences of employer staffing reductions and increased longevity of existing members.

The Fund continues to seek to minimise, and recover, where appropriate, any overpayments made to members. The majority of these cases arise from late notification of a member's death as shown in the following table:

| Year | Pension overpayment | % of gross pension |
|---------|---------------------|--------------------|
| 2009/10 | £114,321.45 | 0.04% |
| 2010/11 | £118,864.39 | 0.04% |
| 2011/12 | £182,531.21 | 0.06% |
| 2012/13 | £168,539.52 | 0.05% |
| 2013/14 | £235,970.78 | 0.06% |

The Financial Services team is also responsible for the Fund's participation in the National Fraud Initiative, which is a biennial process undertaken in conjunction with the Audit Commission. Data has been analysed for the year 2012/13 and the necessary recoveries, arising from identified overpayments are being pursued. The results from previous years are shown in the following table:



Basic contributions to the Fund of £419.3 million were collected in the year, and these are analysed in detail below.

| Employer | Employee |
|----------------------------|-----------------|
| £309.4m | £109.9m |
| Birmingham City Council | £114,503,107.89 |
| Coventry City Council | £32,901,815.18 |
| Dudley MBC | £31,918,399.63 |
| Sandwell MBC | £34,130,862.69 |
| Solihull MBC | £16,974,746.28 |
| Walsall MBC | £30,907,711.50 |
| Wolverhampton City Council | £32,874,049.42 |
| Others | £125,056,144.07 |

Work has recently been undertaken to adjust the control structures used to ensure that all contributions due are collected by their required dates.

Riz Dhanani
Fund Accountant,
West Midlands Pension Fund

Date: September 2014

Communications Report

During 2013/2014, the Fund continued to innovate in the ways in which to communicate with our stakeholders. The Fund is required to have a formal communications policy by the scheme's rules. This policy currently sets out the following:

- How the Fund communicates with its stakeholders.
- The format, frequency and method of communication.
- How the Fund promotes the LGPS to prospective members and employers.

The Fund revises the *Communications Policy Statement* annually, with it being formally agreed by the Pensions Committee every two years to ensure it reflects the wishes of the members and utilises any available advancements in technology.

The primary communication activity of the past twelve months was to educate and inform members in relation to the LGPS and its changes as at 1 April 2014. This education was completed by various methods, including enclosures in benefit statements, bespoke mailings, tailored briefing notes, as well as to one-to-one meetings, roadshows and presentations.

We also ensure that all paper documentation forwarded to members is available on our website at wmpfonline.com. The Fund's website received 87,804 visits in the period 1 April 2013 to 31 March 2014, which is an increase from 57,798 for the financial year 2012/2013.

Much of the increase in traffic on the website was as a result of the Fund's self-service web portal facility which allows employers and members of the Fund to complete pensions tasks securely online. Similarly, the beginning of 2014 saw an increase in traffic to the website's dedicated LGPS 2014 areas.

Work on retirement planning events continued throughout the year with many successful sessions held in the West Midlands area. Following requests by members, the events were rotated around the area during the period, with new venues being sought to access hard-to-reach groups or areas. With the content remaining largely the same, the opportunity has been taken to also provide an update to the recent 2014 LGPS developments. The events now cover the following:

- LGPS and the benefits it provides
- Tax tips
- The 2014 LGPS

The Fund will continue to further enhance these events over coming months, along with other communication material which will benefit members regarding the intended changes in 2014 and protections in place for members already in the LGPS.

In the past year, the Fund added to its employer event schedule with a roundtable discussion aimed at employers in the summer in addition to its winter annual general meeting. These events are part of the increased employer engagement that also included monthly e-newsletters, structured training, and the establishment of an employer peer group where a cross section of employers can give their opinions on important matters relating to Fund activities.

The Fund was also delighted to be recognised for its excellence in communication during the year in corporate accreditations and industry awards nominations.

Building on the success of the web portal and electronic briefing notes issued to employers, the Fund hopes to drive further electronic communication in the coming months as we believe swift and efficient dialogue between the Fund and our customers is an expectation now and for the future.

Antony Ellis
Communications Officer,
West Midlands Pension Fund

Date: September 2014

Investment Strategy and Performance Report

Investment Strategy

Investment policy is reviewed annually. The Fund's focus has been on a long-term investment strategy focussing on three principal asset classes – quoted equities, fixed interest and alternative investments. These are combined to provide diversification and reduce volatility. In recent years, the key trend has been to reduce dependence on the equity risk premium and to increase exposure to alternative investments. The Fund continues to have a return-seeking strategy with a total return target of 6.9% per annum with returns predominantly generated from markets (6.0%) and the balance (0.9%) from active management. The Fund's actual asset allocation as at 31 March 2014 is shown below, compared with the strategic risk bands agreed by the Pensions Committee:

Asset Allocation

| Portfolio | Strategic risk bands % | Closing levels % | Closing market value £m |
|-----------------------------|---------------------------|---------------------|----------------------------|
| UK equities | | 10.0 | 1,004 |
| Global equities | | 5.2 | 526 |
| Overseas equities | | 30.7 | 3,100 |
| Private equity | | 12.3 | 1,240 |
| Total equities | 45.0-65.0 | 58.2 | 5,870 |
| UK gilts | | 1.9 | 192 |
| Specialist fixed interest | | 3.3 | 337 |
| Index linked gilts | | 6.3 | 639 |
| Corporate bonds | | 4.8 | 481 |
| Emerging market debt | | 2.6 | 264 |
| Cash | | 2.6 | 264 |
| Total fixed interest | 15.0-25.0 | 21.5 | 2,177 |
| Property | | 9.2 | 928 |
| Absolute return | | 6.3 | 642 |
| Infrastructure | | 2.9 | 293 |
| Commodities | | 1.9 | 190 |
| Total alternatives | 20.0-30.0 | 20.3 | 2,053 |
| Total non-equities | 35.0-55.0 | 41.8 | 4,230 |
| Total | - | 100.0 | 10,100 |

All main asset classes closed within their wider strategic risk bands. The asset allocation continues to be monitored on a regular basis and the Pensions Committee is advised on a quarterly basis of any significant changes.

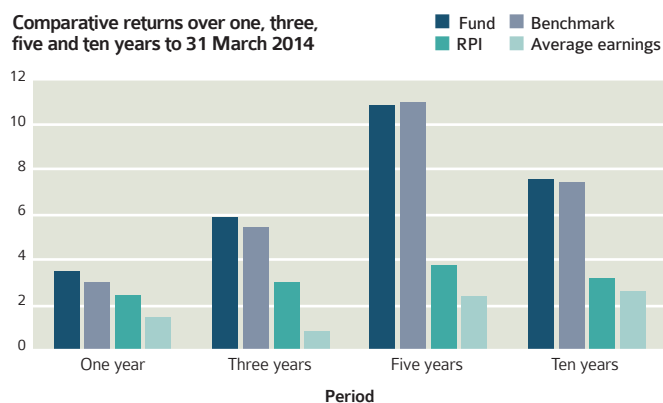
Cashflow

The Fund remains cashflow positive and £83.2 million was invested during the year, with net investment of £201.9 million made in equities offset by a reduction to cash, fixed interest and alternative investments (net disinvestment of £118.7 million). The most significant change was an increase in the Fund's exposure to emerging markets equities – allocating capital during market weakness in this area – in conjunction with the introduction of new segregated investment management arrangements.

| Portfolio | Closing market value £m | | Net investment £m |
|-----------------------------|----------------------------|---------------|----------------------|
| | £m | £m | |
| UK equities | 1,004 | | -17.1 |
| Global equities | 526 | | -0.8 |
| Overseas equities | 3,100 | | +303.4 |
| Private equity | 1,240 | | -83.5 |
| Total equities | | 5,870 | +201.9 |
| UK gilts | 192 | | 0.0 |
| Specialist fixed interest | 337 | | +9.0 |
| Index-linked gilts | 639 | | 0.0 |
| Corporate bonds | 481 | | 0.0 |
| Emerging market debt | 264 | | -29.9 |
| Cash | 264 | | -61.3 |
| Total fixed interest | | 2,177 | -82.2 |
| Property | 928 | | +36.9 |
| Absolute return | 642 | | -55.1 |
| Infrastructure | 293 | | -20.9 |
| Infrastructure | 190 | | +2.6 |
| Total alternatives | | 2,053 | -36.5 |
| Total complementary | 4,230 | 4,230 | -118.7 |
| Total | 10,100 | 10,100 | +83.2 |

Investment Performance

The Fund's annualised returns over one, three, five and ten years compared to the benchmark, retail prices index (RPI) and average earnings are illustrated in the chart shown below.



Short-term (one year)

In the year to 31 March 2014, the Fund delivered a return of 3.5%, ahead of its bespoke benchmark of 3.1%. The main contributors to the outperformance were good relative performances from the quoted equities and fixed interest portfolios.

Investment Strategy and Performance Report

Medium-term (three to five years)

A return of 6.0% per annum was achieved by the Fund in the three years to 31 March 2014, ahead of the bespoke benchmark return of 5.5%. This was mainly due to strong returns from UK and overseas equities portfolios.

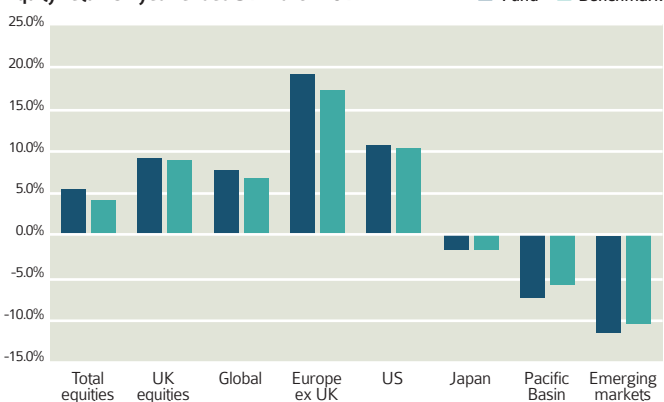
The Fund's strong five-year performance reflects the recovery in stock markets seen since 2009 following the very poor market conditions experienced during the credit crunch in the previous year. Performance of 10.9% per annum was slightly behind the benchmark return of 11.1% but was ahead of increases in RPI and average earnings.

Long-term (ten years)

The Fund's ten-year return of 7.6% per annum was slightly ahead of the benchmark of 7.5% and comfortably ahead of increases in RPI and average earnings.

Quoted Equities

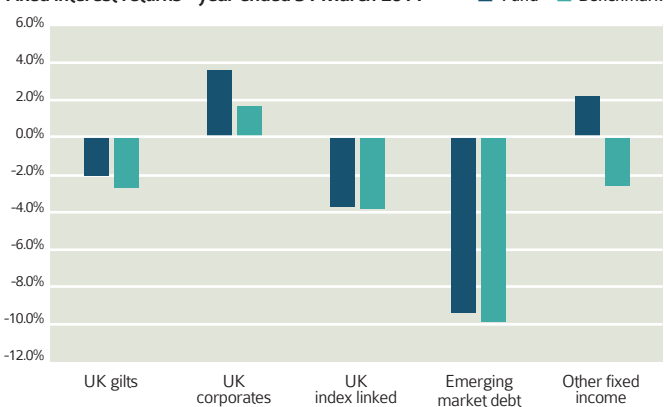
Equity returns - year ended 31 March 2014



The Fund's quoted equities portfolio outperformed, with a return of 5.5% achieved compared with a benchmark return of 4.1%. The Europe (ex UK) and global equities portfolios performed notably well. Emerging markets equities, by contrast, had a poor year as did Pacific Basin markets and Japan, the latter largely due to yen weakness.

Fixed Interest Returns

Fixed interest returns - year ended 31 March 2014

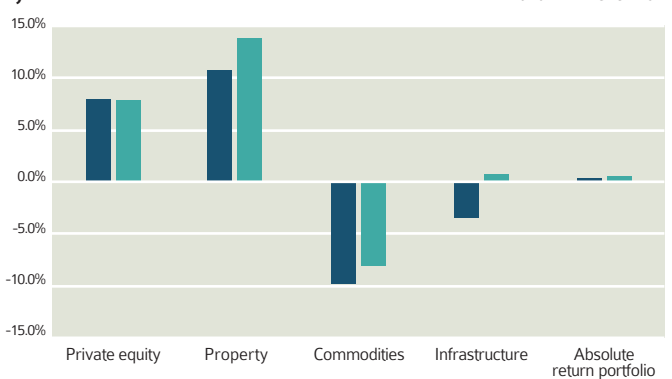


Fixed interest markets had a difficult year, in particular emerging market debt and gilts (both conventional and index-linked), reflecting the prospect of the ending of quantitative easing measures and the possibility of interest rate rises. The Fund's fixed interest portfolio outperformed, with a return of -1.9% ahead of the benchmark return of -3.6%. The corporate bond fund holdings fared notably well.

Alternative Investment Returns

There were varying performances from the alternative investments portfolios during the year. The private equity portfolio posted a return of 7.7%, reflecting profitable distributions and firmer stock markets. It was a good year for property, too. The Fund's consolidated property portfolio's return of 10.8% lagged its benchmark at 13.8%, but within the overall picture, the directly held UK property holdings fared well with a return of 14.1%. The indirect holdings – predominantly overseas – posted a modest 3.9% return. There were weak performances from commodities (-9.5%) and infrastructure (-3.5%), reflecting poor market conditions in the former and underperformance in certain funds in the case of the latter.

Alternative investment returns - year ended 31 March 2014



Mark Chaloner

Assistant Director - Investments,
West Midlands Pension Fund

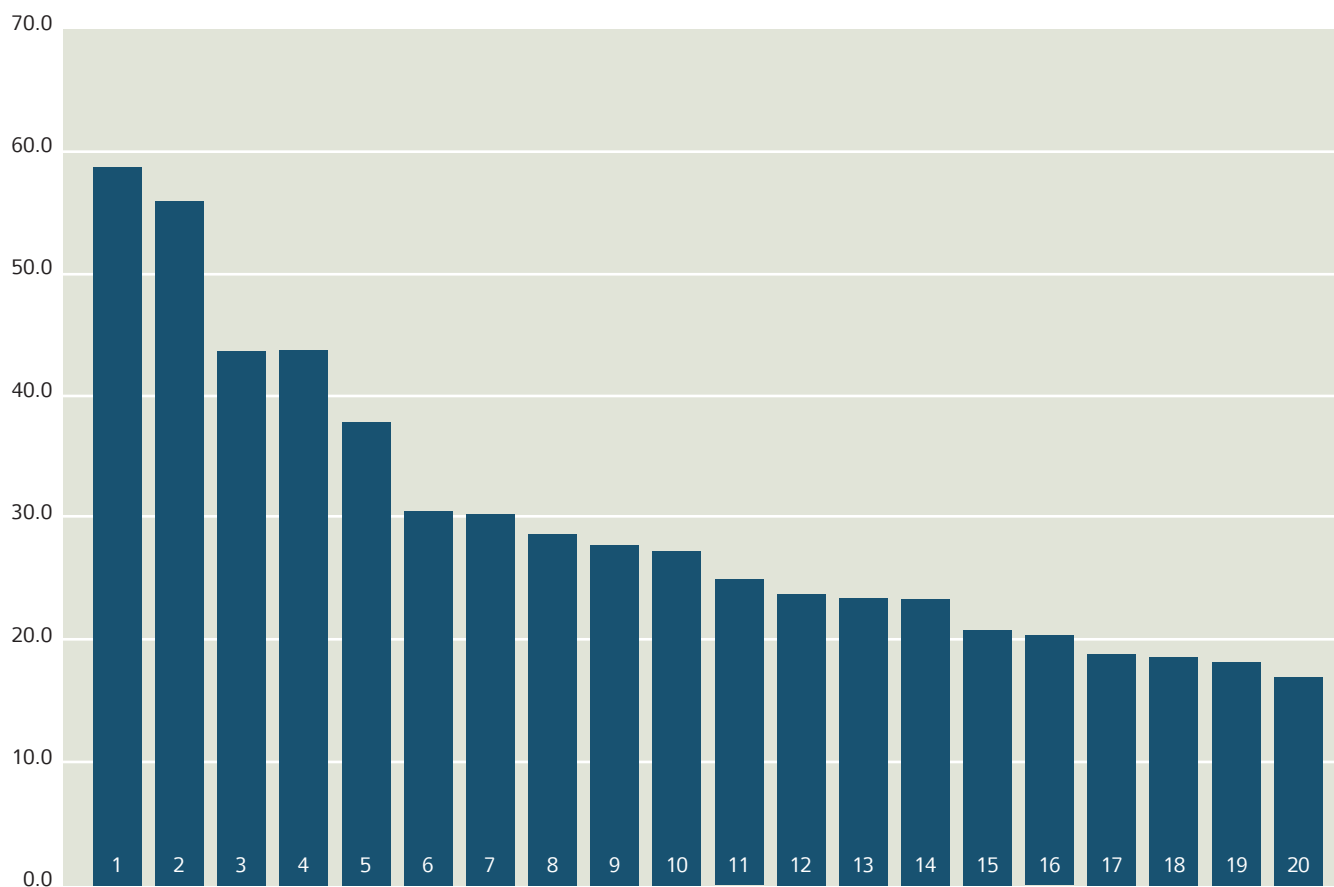
Date: September 2014

Top Twenty Equity Holdings

| No. | Stock | Fund value GBP £m | % of Fund |
|-----|-----------------------------|-------------------|-----------|
| 1 | Royal Dutch Shell B | 58.6 | 0.58 |
| 2 | HSBC Holdings. (Ord \$0.50) | 55.9 | 0.55 |
| 3 | Samsung Electronics | 43.7 | 0.43 |
| 4 | BP | 43.7 | 0.43 |
| 5 | GlaxoSmithKline | 37.8 | 0.37 |
| 6 | British American Tobacco | 30.7 | 0.30 |
| 7 | Diageo | 30.3 | 0.30 |
| 8 | Vodafone Group | 28.6 | 0.28 |
| 9 | BHP Billiton | 27.9 | 0.28 |
| 10 | SABMiller | 27.5 | 0.27 |

| No. | Stock | Fund value GBP £m | % of Fund |
|-----|--------------------------------|-------------------|-----------|
| 11 | Nestle 'R' | 25.0 | 0.25 |
| 12 | AstraZeneca | 23.8 | 0.24 |
| 13 | Apple | 23.4 | 0.23 |
| 14 | Reckitt Benckiser Group | 23.4 | 0.23 |
| 15 | Exxon Mobil | 20.9 | 0.21 |
| 16 | Rio Tinto | 20.5 | 0.20 |
| 17 | Lloyds Banking Group | 19.0 | 0.19 |
| 18 | BG Group | 18.7 | 0.19 |
| 19 | Barclays | 18.4 | 0.18 |
| 20 | Commonwealth Bank of Australia | 17.1 | 0.17 |

Total investment assets £10.1bn

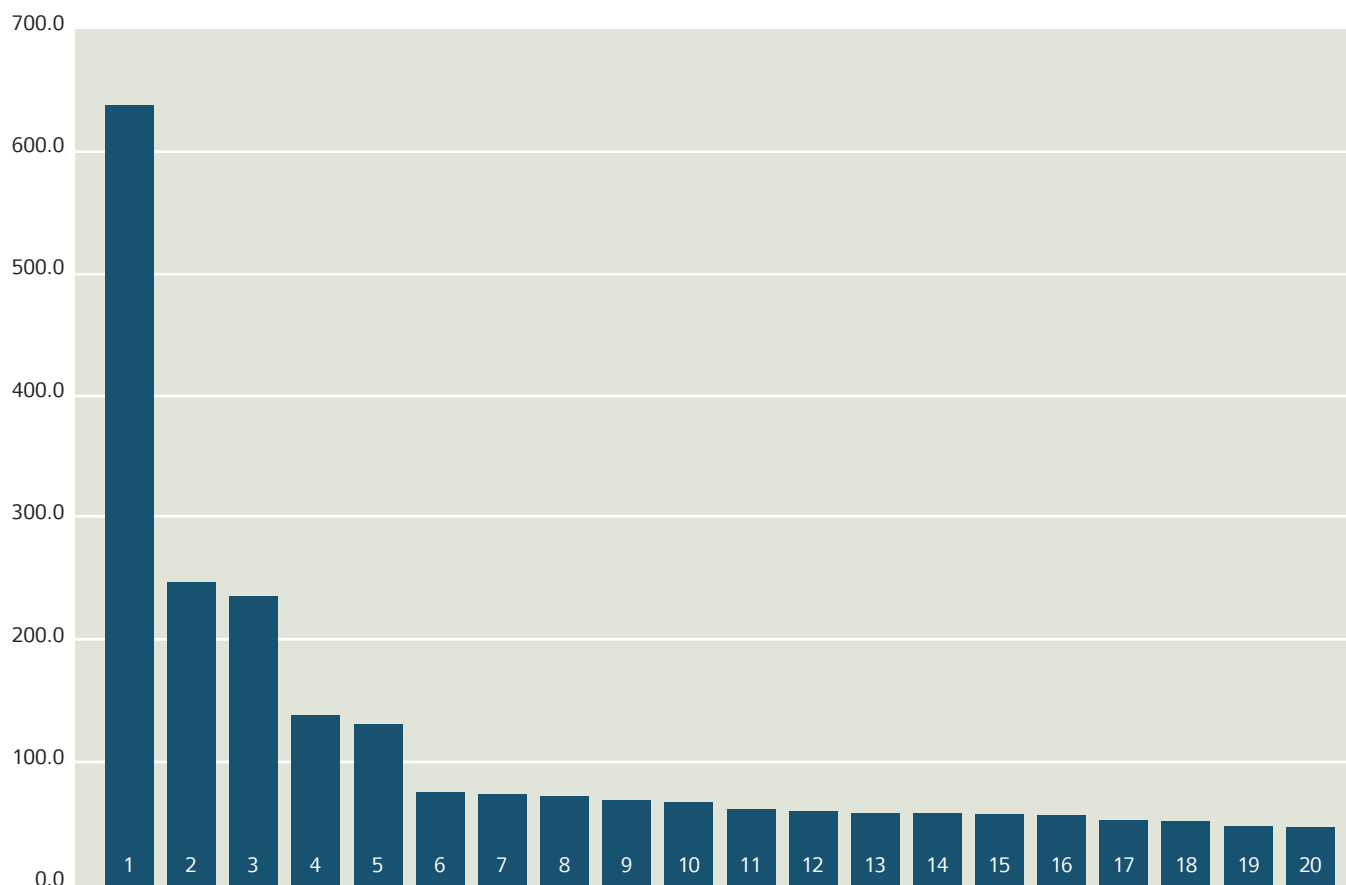


Top Twenty Indirect Holdings

| No. | Stock | Fund value GBP £m | % of Fund |
|-----|--|----------------------|--------------|
| 1 | Legal & General - All Stocks Index Linked Gilts Fund | 639.1 | 6.33 |
| 2 | Schroder All Maturities Bond Fund | 246.9 | 2.44 |
| 3 | BlackRock Ascent Life European Equity Fund | 236.8 | 2.34 |
| 4 | BlackRock Global Composite Fund | 140.2 | 1.39 |
| 5 | Legal & General All Stocks Gilts Index | 132.1 | 1.31 |
| 6 | CF Ruffer Total Return Fund | 76.3 | 0.76 |
| 7 | CATCo Diversified Fund | 75.2 | 0.74 |
| 8 | Legal & General Overseas Bond Fund | 74.5 | 0.74 |
| 9 | Pioneer Emerging Market Debt Fund | 70.4 | 0.70 |
| 10 | Capital International Emerging Markets Fund | 69.0 | 0.68 |

| No. | Stock | Fund value GBP £m | % of Fund |
|-----|--|----------------------|--------------|
| 11 | Legal & General Invnt Grade Cp Bnd All Stks Ind | 62.6 | 0.62 |
| 12 | Capital Dynamics Asia | 61.5 | 0.61 |
| 13 | Legal & General 0 to 5 Year Gilts Index | 60.5 | 0.60 |
| 14 | Ashmore Emerging Markets Liquid Investment Portfolio | 60.4 | 0.60 |
| 15 | Aspect Diversified Fund | 58.0 | 0.57 |
| 16 | Bluebay Emerging Market Opportunity Fund | 57.6 | 0.57 |
| 17 | Advent Global Phoenix Convertible Fund | 54.2 | 0.54 |
| 18 | BlueCrest Mercantile Fund | 52.2 | 0.52 |
| 19 | Baillie Gifford Diversified Growth Fund | 49.5 | 0.49 |
| 20 | Newton Global Dynamic Bond Fund | 48.1 | 0.48 |

Total investment assets £10.1bn

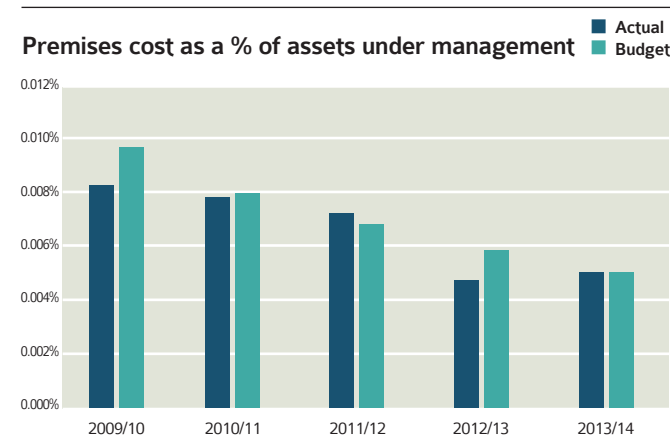
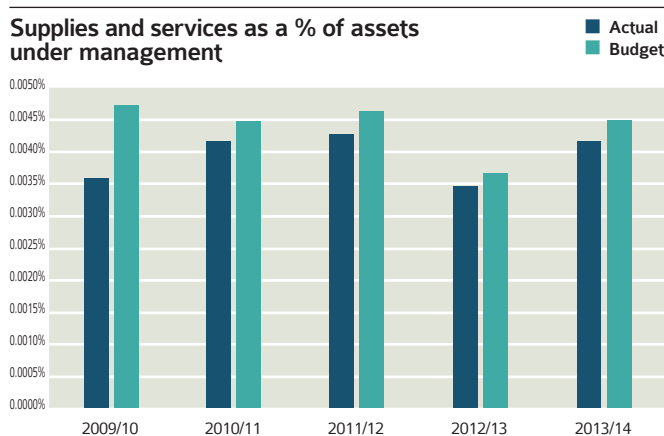
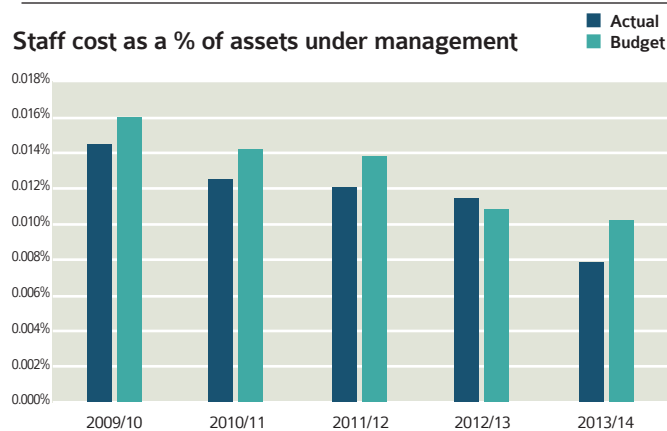
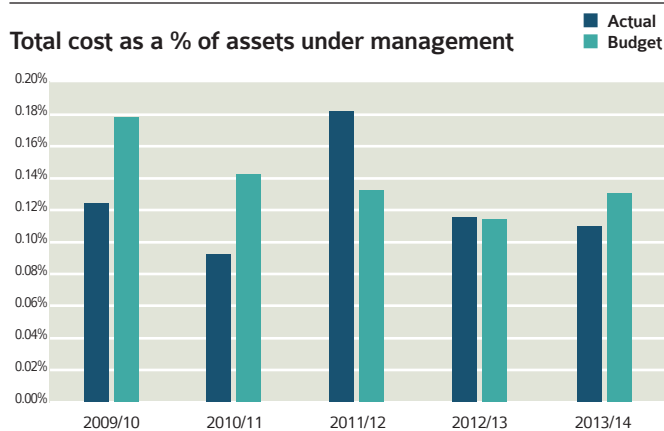


The following investment represents more than 5% of the net assets of the scheme:

| 31 March 2013 | | | 31 March 2014 | |
|--------------------|-------------------------------|---|--------------------|-------------------------------|
| Market value £m | % of total market value | | Market value £m | % of total market value |
| 664.0 | 6.8 | Security Legal & General - All Stocks Index-Linked Gilts Fund | 639.1 | 6.3 |

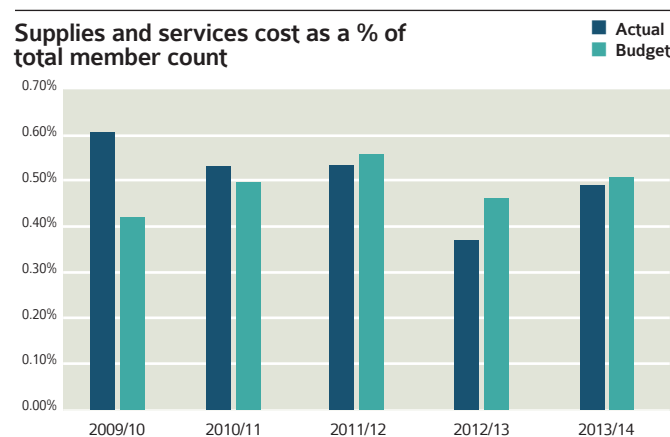
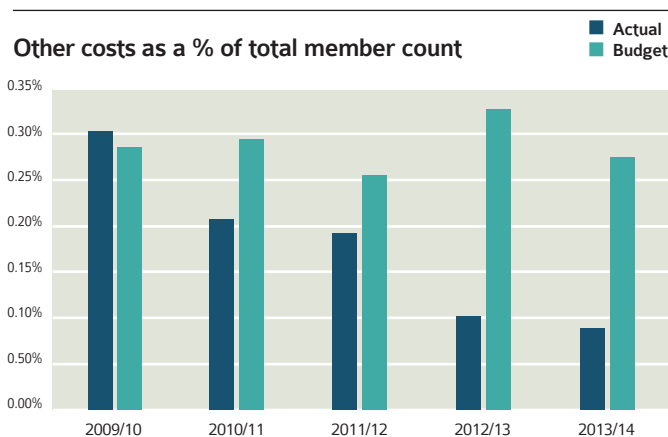
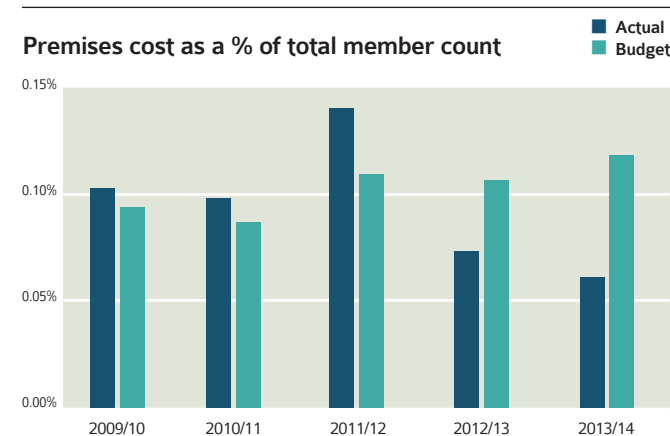
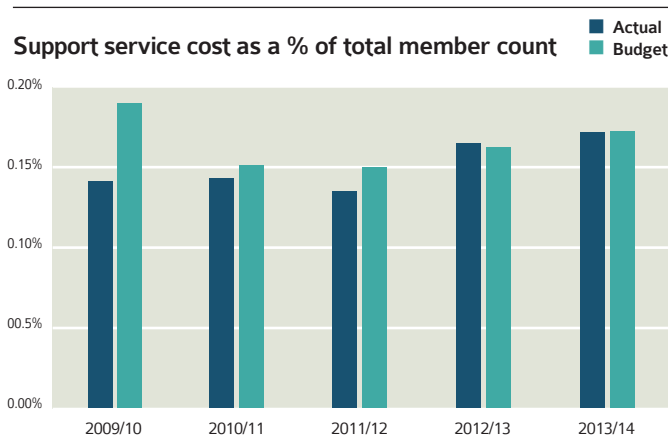
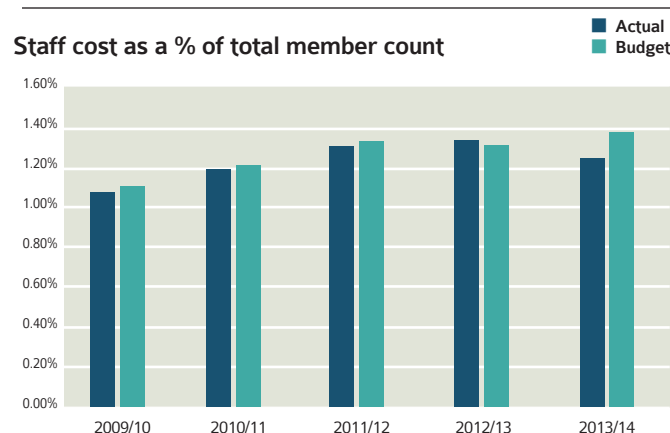
Overall Fund Statistical Information

Fund Management Unit Costs as a % of Assets Under Management 2013/2014



Overall Fund Statistical Information

Benefit Operations Costs as a % of Total Member Costs 2013/2014



Overall Fund Statistical Information

Key Membership Statistics

| Year | Active | Deferred | Preserved refunds | Pensioner | Beneficiary | Totals |
|---------------|---------|----------|-------------------|-----------|-------------|----------------|
| 31 March 2010 | 104,612 | 69,605 | 8,181 | 56,433 | 10,438 | 249,269 |
| 31 March 2011 | 102,011 | 73,040 | 8,121 | 59,833 | 10,688 | 253,693 |
| 31 March 2012 | 95,478 | 76,422 | 8,045 | 64,280 | 10,948 | 255,173 |
| 31 March 2013 | 97,330 | 78,679 | 7,830 | 66,461 | 11,024 | 261,324 |
| 31 March 2014 | 99,771 | 82,287 | 7,721 | 69,170 | 11,381 | 270,330 |

Active members

The Fund has a total active membership of **99,771**. Since 31 March 2013, the number of contributing employees in membership has increased by **2,441**.

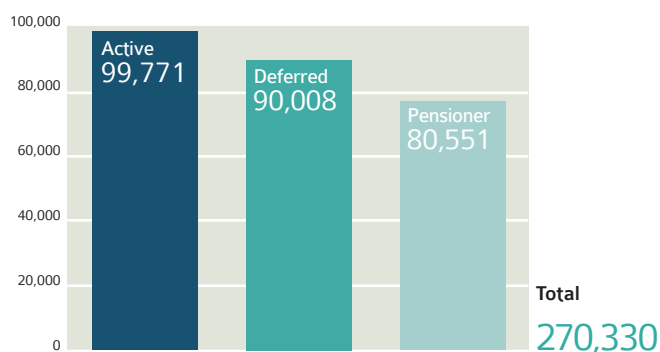
Deferred members

These are former contributors who have left their pension rights with the Fund until they become payable at normal retirement date.

Pensioner members

Pensions and other benefits amounting to **£472m** each year are paid to retired members,

Benefit Operations Staff/ Fund Member Ratios



Average Cases per Member of Benefits Operations Staff

Number of processes

| Processes outstanding as at 31 March 2013 | Processes completed 2013/14 | Processes outstanding as at 31 March 2014 |
|---|-----------------------------|---|
| 14,989 | 139,220 | 12,139 |

Average processes per member of staff

| Processes outstanding as at 31 March 2013 | Processes completed 2013/14 | Processes outstanding as at 31 March 2014 |
|---|-----------------------------|---|
| 139 | 1,573 | 137 |

Benefit Operations Membership Movement

Member Movements During the Year - Admissions to the Fund



- Employees with no previous service
- Employees with transfers from other pension schemes
- Employees with transfers from other local government pension schemes

Withdrawals from the Fund



- Members entitled to deferred benefits, etc.
- Members awarded immediate retirement benefits
- Benefits awarded following a member's death in service

Complaints

Number of Complaints

The number of complaints processes started in 2013/2014:

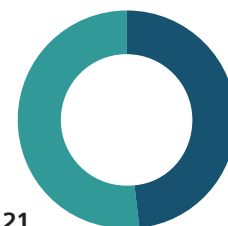
35

Comparison of Operating Costs with Other Funds

CIPFA provide an annual benchmarking service for LGPS funds who choose to participate in their CIPFA Pensions Club. The 2013/2014 analysis provides a comparison of member service costs per scheme member, with the full set of participating funds.

- West Midlands Pension Fund £19.21
- Latest full CIPFA Club average £20.86

Large urban area funds have similar costs to West Midlands Pension Fund.



Overall Fund Statistical Information

Number of Members

| Status (age in years) | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 |
|-----------------------|----------|-----------|------------|------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Active | - | - | - | 501 | 3,526 | 6,055 | 8,794 | 9,787 | 14,092 | 18,537 | 18,205 |
| Beneficiary pensioner | 9 | 45 | 135 | 240 | 99 | 13 | 11 | 22 | 79 | 173 | 357 |
| Deferred | - | - | - | 54 | 1,188 | 4,669 | 7,281 | 8,070 | 11,547 | 15,381 | 15,283 |
| Deferred ex-spouse | - | - | - | - | - | - | - | 1 | 17 | 43 | 52 |
| Pensioner | - | - | - | - | - | - | 5 | 18 | 79 | 289 | 693 |
| Pensioner deferred | - | - | - | - | - | - | - | - | - | 4 | 1 |
| Pensioner ex-spouse | - | - | - | - | - | - | - | - | - | - | - |
| Preserved refund | - | - | - | 9 | 56 | 250 | 616 | 853 | 1,156 | 1,552 | 1,468 |
| | 9 | 45 | 135 | 804 | 4,869 | 10,987 | 16,707 | 18,751 | 26,970 | 35,979 | 36,059 |

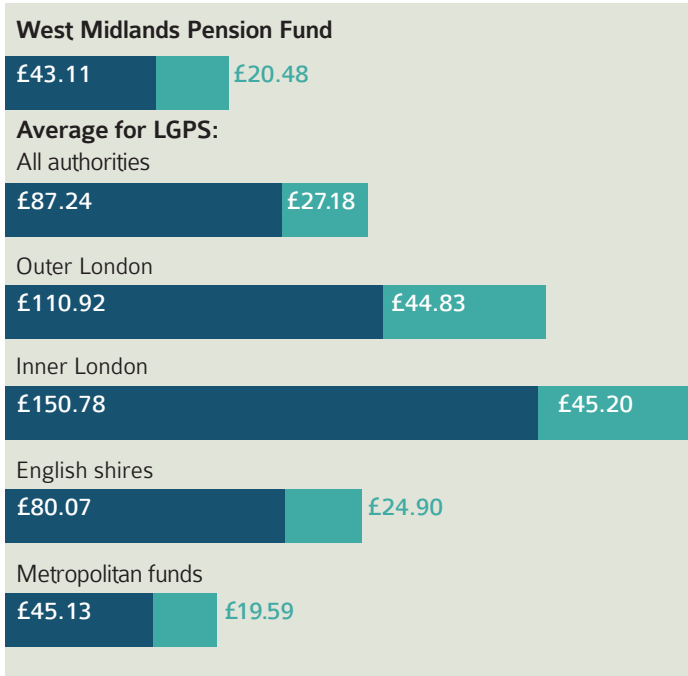
| Status (age in years) | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|-----------------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|------------|-----------|----------------|
| Active | 12,796 | 5,920 | 1,318 | 230 | 9 | 1 | - | - | - | - | 99,771 |
| Beneficiary pensioner | 555 | 847 | 1,318 | 1,571 | 1,865 | 1,871 | 1,279 | 699 | 146 | 21 | 11,355 |
| Deferred | 13,242 | 4,856 | 268 | 75 | 35 | 78 | 52 | 14 | - | - | 82,093 |
| Deferred ex-spouse | 54 | 14 | - | - | - | - | - | - | - | - | 181 |
| Pensioner | 3,611 | 14,678 | 18,703 | 12,611 | 8,712 | 5,702 | 2,845 | 1,035 | 173 | 16 | 69,170 |
| Pensioner deferred | 5 | 3 | - | - | - | - | - | - | - | - | 13 |
| Pensioner ex-spouse | - | 7 | 11 | 3 | 2 | 2 | 1 | - | - | - | 26 |
| Preserved refund | 1,064 | 491 | 58 | 40 | 41 | 20 | 23 | 22 | 2 | - | 7,721 |
| Total | 31,327 | 26,816 | 21,676 | 14,530 | 10,664 | 7,674 | 4,200 | 1,770 | 321 | 37 | 270,330 |

Overall Fund Statistical Information

Comparisons of Operating Costs With Other Funds

The Government collects information from all LGPS funds – on their administration and fund management costs – on a yearly basis. The latest figures are for 2012/2013 and these show the following comparison:

- Fund management (£ per Scheme member)
- Administration costs (£ per Scheme member)



Internal Dispute Resolution Procedure (IDRP)

During the financial year 2013/2014, 17 cases were received.

Of these cases, 14 were non-medical matters and three related to ill-health matters. The latter cases were referred for independent medical opinion where appropriate.

In total, one case was upheld and 16 were dismissed.

Overall Fund Statistical Information

Management Performance - Number and Trend of Top Ten Case Types

| | | | |
|---|---|---|---|
| Joiner processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 13,535 | 13,350 | 185 | 99% |
| Refund processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 287 | 276 | 11 | 96% |
| Retirement processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 2,457 | 2,378 | 79 | 97% |
| Deferment processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 6,570 | 6,092 | 478 | 93% |
| Deferred retirement processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 2,006 | 1,934 | 72 | 96% |
| Death-in-service processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 128 | 93 | 35 | 73% |
| Death in deferment processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 151 | 111 | 40 | 74% |
| Death in retirement processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 2,196 | 1,803 | 393 | 82% |
| Maintain member data processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 15,974 | 15,866 | 108 | 99% |
| Change of address and/or bank processes commenced in 2013/14... | ...of which, processes completed in 2013/14 | ...of which, outstanding processes at 31 March 2014 | Commenced and completed in the period 2013/14 |
| 9,452 | 9,427 | 25 | 99% |

List of Bodies of Which the Fund is a Member



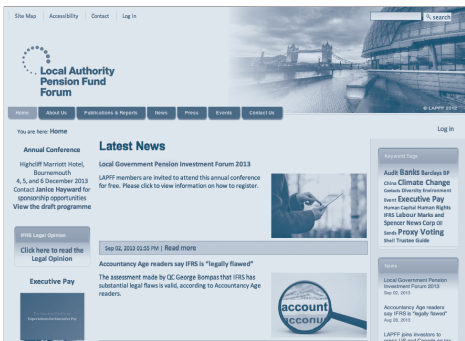
National Association of Pension Funds (NAPF)

The National Association of Pension Funds (NAPF) seek to influence the outcome of, and proactively shape, UK pension policy to achieve a viable and sustainable workplace pensions sector that instils public confidence. This means for a fair and affordable pensions system and an environment that encourages good workplace pensions.



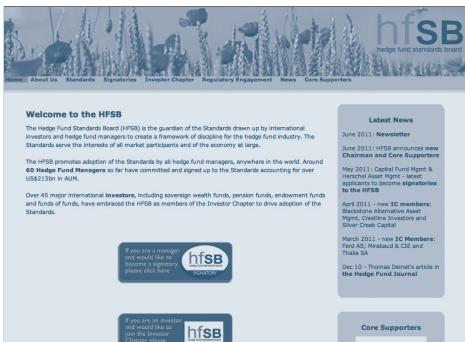
Institutional Investors Group on Climate Change (IIGCC)

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The IIGCC brings investors together to use their significant collective influence to engage in dialogues with policymakers, investors and companies to accelerate the shift to a low carbon economy.



Local Authority Pension Fund Forum (LAPFF)

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.



Hedge Funds Standards Board (HFSB) – (www.hfsb.org)

The Hedge Fund Standards Board (HFSB) is the guardian of the Standards drawn up by international investors and hedge fund managers to create a framework of discipline for the hedge fund industry. The Standards serve the interests of all market participants and of the economy at large.



United Nations Principles for Responsible Investment (UNPRI)

The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investment into practice.

Risk Management

The Fund has to manage a wide range of risks and evaluate how this will be achieved. It is done through regular review, analysis, effective controls and management action, both proactive and reactive.

The Fund's objectives are achieved through a risk management framework.

The key elements are:

- Annual risk management review involving senior officers and use of a detailed template designed to cover all significant Fund activities. This is supported by the work of internal audit and specialist expertise engaged regularly in respect of operational investment risks supported by the use of the compliance testing programme.
- The external audit of the Fund's accounts and activities through experienced private sector staff supported by experienced pension partners combined with an actuarial expertise.
- Analysis of key processes enabling appropriate internal control procedures to be developed and maintained.
- A robust process for developing, monitoring and managing the investment strategy, and associated risk budget.

A key element to risk management is the structured delegation of powers from the Council to the Pensions Committee and then to the Director of Pensions, supported by senior officers. To complement the delegation, there is extensive and detailed accountability back to Committee on how these delegations have been exercised on a regular basis, with the Director submitting an *Annual Assurance Report*. The purpose of the *Annual Report* is to demonstrate that the Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices (when appropriate) and has high customer service functions satisfaction. In particular, risk management arrangements are robust and the reports to Pensions Committee have given that assurance.

Investment risk is significant and recognised as falling into distinct areas: market risk (beta) and manager skill (alpha). Investment strategy is devised and implemented with regard to these risks and is designed with the support of external expert advice.

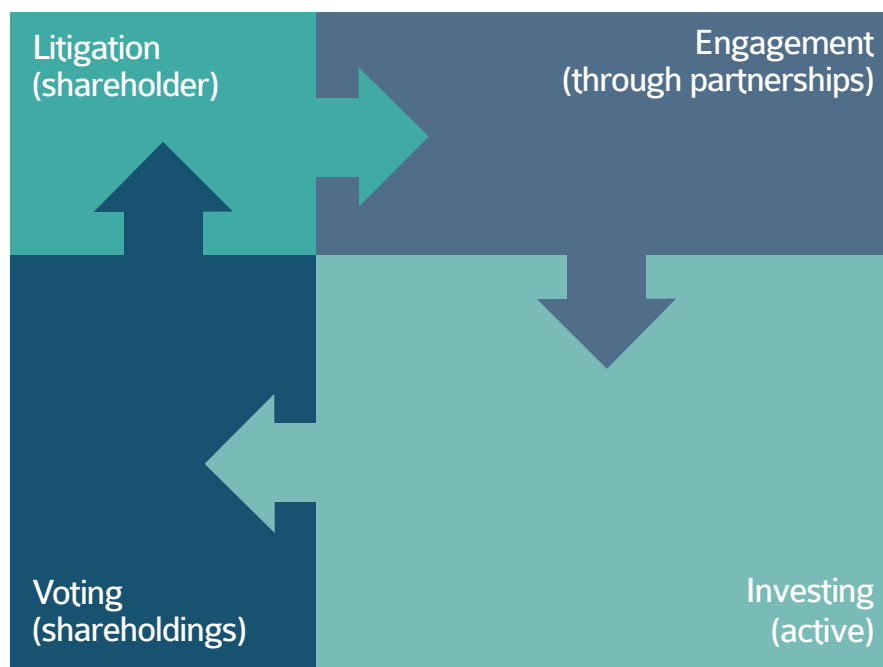
Details are contained in the *Statement of Investment Principles* and the *Funding Strategy Statement*. The operational management of the investment strategy is covered by a compliance testing programme, designed with the help of Deloitte, leading to quarterly reports to the Pensions Committee. This provides continual monitoring and review of investment activity and associated risks. In addition, Deloitte also review the compliance testing programmes. The Fund's approach to risk is regularly assessed, hence the investment strategy was subject to a major review in January 2009 by the Investment Sub-Committee in response to the unprecedented market turmoil of 2008, a further revision in April 2011 to complete the phased implementation. Subsequently, the Fund's investment strategy is reviewed annually by the Pensions Committee supported by the Fund's investment advisor, the latest being 2013/14.

The investment strategy is monitored weekly by officers, enabling appropriate corrective action to be taken if deemed necessary. A quarterly report is submitted to the Investment Sub-Committee covering the current asset allocation relative to the benchmark, investment performance and the actions taken during the quarter to implement the Pensions Committee's investment policy. Any positions outside the strategic risk ranges are reported and explained. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of an IT system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff.

It is recognised that Fund services are very dependent upon third party contracts ranging from IT through to investment managers. All are subject to regular review and monitoring, with compliance visits targeted at the more significant risk areas.

Responsible Investment

ESG Best Practice



The Fund believes that the incorporation of material environmental, social and governance (ESG) risks and opportunities into its investment approach will contribute to superior risk-adjusted returns over the long term. The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is integral to its overall investment management arrangements and its active governance policy.

As shown in the graphic above, there are essentially four elements to the Fund's approach. Each one can be undertaken separately, though are most effective when combined, representing best practice.

Voting Globally

The Fund believes that global voting is a particularly effective communication tool in that it is transparent, simple and in the public domain. In 1999, the Fund began to exercise its right to vote at UK shareholder meetings and in the years since has expanded this to include voting all equity holdings in the US, Europe, Japan and the Pacific region.

Voting Summary

Over the twelve months ending 31 March 2014, the Fund voted at 2,485 shareholder meetings, both in the UK and internationally, opposing more than 20.5% of all resolutions. The Fund supported management on all resolutions at 51 meetings. A breakdown of the Fund's voting behaviour for these meetings across markets and issues is provided in the proceeding pages (Voting Summary).

Once again, the appointment of non-executive directors attracted a high level of opposition, hence where there appears to be insufficient independent representation on the board of directors, the Fund will vote against the appointment.

Investor opposition to executive remuneration reports continued to receive a high level of institutional attention during the year as shareholder opposition to remuneration has remained a contentious issue. The Fund is reluctant to reward management for poor or irresponsible behaviour and, in such circumstances, will oppose the remuneration report regardless of the economic backdrop.

Engagement with Partnerships

The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join with other investors with similar concerns. Some of the most significant collaborative initiatives in which the Fund is involved are highlighted below.

Local Authority Pension Fund Forum (LAPFF)

In terms of the Fund's engagement approach with other investors, it is most significant through LAPFF. It is a founding member of LAPFF, an influential body comprising of sixty public sector pension funds based in the UK with combined assets of more than £125bn. LAPFF exists to promote the investment interests of local authority pension funds, and believes that standing as a single group maximises their influence as shareholders, promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

Responsible Investment

Over the twelve months ending 31 March 2014, the LAPFF engaged with various companies on a range of environmental, social and governance issues on behalf of the Fund and other members. Where applicable, LAPFF will engage with companies on more than one issue simultaneously. A further breakdown of LAPFF's engagement programme over the course of the year is provided in the proceeding pages (Voting Summary).

Executive remuneration has been an important governance issue for LAPFF for many years and, over the past few years, LAPFF has focused on the subject of incorporating non-financial performance metrics into long-term reward. They believe that poor management of non-financial areas such as risk management can be detrimental to performance and that such measures could be used more effectively to align the interests of managers and owners.

The Fund believes that resilient, robust financial markets that are less prone to shocks, facilitate long-term growth and support the consideration of ESG issues are among the key factors determining the long-term return on the Fund. LAPFF engages with key policy makers and regulatory bodies to promote this aim. For example, since the launch of its 2011 report into why the UK and Irish banking system collapsed¹, LAPFF has also made significant progress raising concerns about the detrimental impact of *International Financial Reporting Standards (IFRS)*.

Further details on LAPFF's engagement activities can be found on their website: <http://www.lapfforum.org/>

United Nations-backed Principles of Responsible Investment (PRI)

The Fund also continues to be a signatory of the PRI. Signatories must show progress in incorporating the following principles into their investment process over time:

- To incorporate ESG issues into investment analysis and decision-making.
- To be active owners and incorporate ESG issues into ownership policies and practices.
- To seek appropriate disclosure on ESG issues by the entities in which investments are made.
- To promote acceptance and implementation of the principles within the investment industry.
- To work together to enhance effectiveness in implementing the principles.
- To report on activities and progress towards implementing the principles.

The principles allow the Fund to demonstrate its commitment to ESG issues, provide a framework from which the Fund can improve its responsible investment approach over time, and to further collaborate with other signatories to better understand ESG issues and improve best practice.

Further information on the PRI's activities can be found on their website: <http://www.unpri.org/>

Other Key Initiatives

The Fund is a signatory to the Institutional Investors Group on Climate Change (IIGCC), which is a forum for collaboration on climate change for European investors. The IIGCC uses its collective influence to engage in dialogues with policymakers, investors and companies to accelerate the shift to a low carbon economy. The Fund is a signatory to the *2014 Global Investor Statement on Climate Change* which can be found on the IIGCC's website: <http://www.iigcc.org>

The Fund is also a member of the National Association of Pension Funds (NAPF), the UK Sustainable Investment and Finance Association (UKSIF), and a signatory to the Carbon Disclosure Project (CDP).

Shareholder Litigation

A third approach adopted by the Fund in order to encourage corporate management to behave responsibly and honestly is through shareholder litigation. The Fund, in partnership with a US law firm and other shareholders, submits class actions where possible and where appropriate.

Environmental and Social Themed Investing

As an institutional investor, the Fund has a fiduciary duty to act in the best long-term interests of its employers and members. The Fund recognises that environmental and social challenges can create attractive investment opportunities and has actively committed to date approximately 1.3% of its assets to environmental and social themed investing. There is no set target for the Fund's ESG investments as these are considered mainstream, with holdings in most asset classes.

The Fund is also among five other LGPS funds forming part of the Investing 4 Growth (I4G) initiative, which aims to invest for financial returns and positive social and environmental impact. The Fund has recently committed £30 million to Bridges Property Alternatives Fund, a fund that was put forward through this initiative.

The Fund has also announced a partnership with Finance Birmingham providing finance to small and medium enterprises (SMEs) in the West Midlands area. The Fund has committed up to £40m of finance to a fund that Finance Birmingham is managing. The Fund will be joining other regional investors and central government in providing funds to the project which will be accessible as loans to SMEs. As with other impact investing opportunities, the Fund believes that this investment partnership will meet its investment criteria but also will have the important element of supporting local projects, securing and creating jobs in the West Midlands.

Voting Summary

Total



Support management **33.7%**
Against management **66.3%**

UK



Support management **23.2%**
Against management **76.8%**

Europe



Support management **29.1%**
Against management **70.9%**

USA and Canada



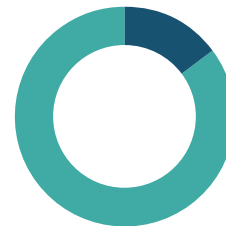
Support management **46.0%**
Against management **54.0%**

Asia



Support management **56.7%**
Against management **43.3%**

Japan



Support management **14.9%**
Against management **85.1%**

Australia/New Zealand/South Africa



Support management **41.9%**
Against management **58.1%**

South America



Support management **51.7%**
Against management **48.3%**

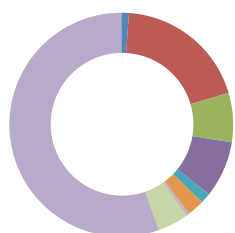
Rest of the World



Support management **79.6%**
Against management **20.4%**

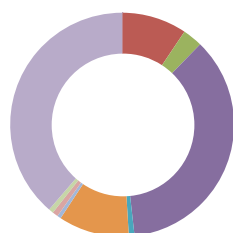
Voting Summary

Total



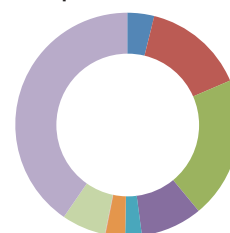
| | |
|-------------------------|-------|
| Shareholder resolution | 1.1% |
| Remuneration | 19.3% |
| Share capital | 7.1% |
| Annual report | 8.2% |
| Articles of association | 1.5% |
| Auditors | 2.5% |
| Corporate actions | 0.3% |
| Corporate donations | 0.3% |
| Other | 4.4% |
| Directors | 55.5% |

UK



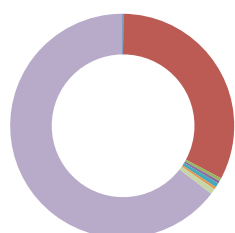
| | |
|-------------------------|-------|
| Shareholder resolution | -% |
| Remuneration | 9.4% |
| Share capital | 2.9% |
| Annual report | 36.0% |
| Articles of association | 0.8% |
| Auditors | 10.2% |
| Corporate actions | 0.5% |
| Corporate donations | 0.8% |
| Other | 0.7% |
| Directors | 38.7% |

Europe



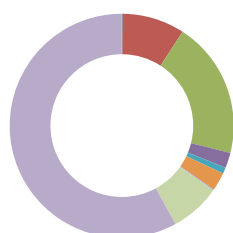
| | |
|-------------------------|-------|
| Shareholder resolution | 3.9% |
| Remuneration | 14.7% |
| Share capital | 20.4% |
| Annual report | 8.9% |
| Articles of association | 2.4% |
| Auditors | 2.8% |
| Corporate actions | -% |
| Corporate donations | -% |
| Other | 6.4% |
| Directors | 40.4% |

USA and Canada



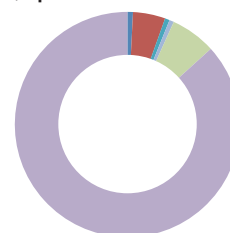
| | |
|-------------------------|-------|
| Shareholder resolution | 0.2% |
| Remuneration | 32.6% |
| Share capital | 0.4% |
| Annual report | 0.4% |
| Articles of association | 0.6% |
| Auditors | 0.4% |
| Corporate actions | -% |
| Corporate donations | -% |
| Other | 0.8% |
| Directors | 64.6% |

Asia



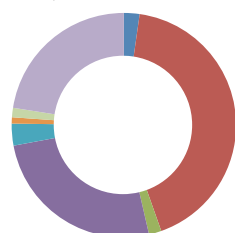
| | |
|-------------------------|-------|
| Shareholder resolution | 0.1% |
| Remuneration | 9.0% |
| Share capital | 19.8% |
| Annual report | 2.2% |
| Articles of association | 0.9% |
| Auditors | 2.7% |
| Corporate actions | 0.1% |
| Corporate donations | -% |
| Other | 7.2% |
| Directors | 58.0% |

Japan



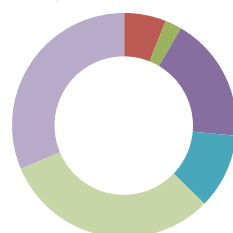
| | |
|-------------------------|-------|
| Shareholder resolution | 0.8% |
| Remuneration | 4.6% |
| Share capital | -% |
| Annual report | -% |
| Articles of association | 0.7% |
| Auditors | -% |
| Corporate actions | 0.7% |
| Corporate donations | -% |
| Other | 6.5% |
| Directors | 86.7% |

Australia/New Zealand/South Africa



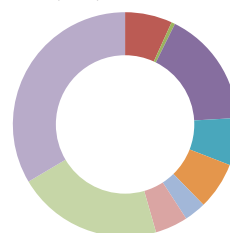
| | |
|-------------------------|-------|
| Shareholder resolution | 2.3% |
| Remuneration | 42.3% |
| Share capital | 1.8% |
| Annual report | 25.7% |
| Articles of association | 3.2% |
| Auditors | 0.9% |
| Corporate actions | -% |
| Corporate donations | -% |
| Other | 1.4% |
| Directors | 22.5% |

South America



| | |
|-------------------------|-------|
| Shareholder resolution | -% |
| Remuneration | 6.0% |
| Share capital | 2.4% |
| Annual report | 18.1% |
| Articles of association | 10.8% |
| Auditors | -% |
| Corporate actions | -% |
| Corporate donations | -% |
| Other | 31.3% |
| Directors | 31.3% |

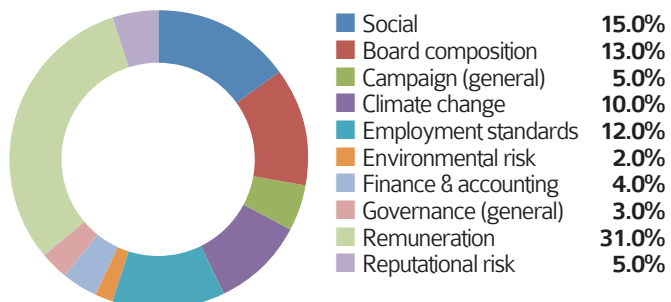
Rest of the World



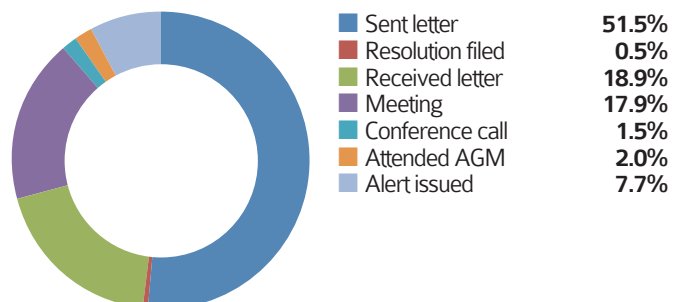
| | |
|-------------------------|-------|
| Shareholder resolution | -% |
| Remuneration | 6.8% |
| Share capital | 0.5% |
| Annual report | 16.8% |
| Articles of association | 6.8% |
| Auditors | 6.8% |
| Corporate actions | 3.1% |
| Corporate donations | 4.7% |
| Other | 20.9% |
| Directors | 33.5% |

LAPFF Engagement Summary

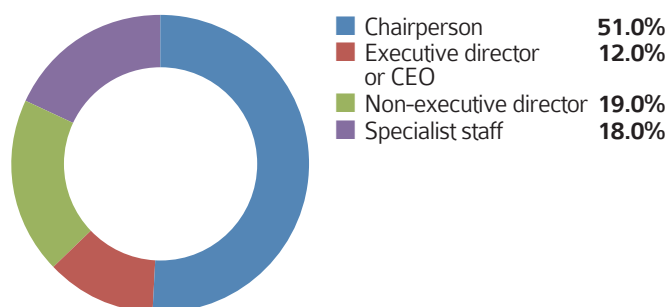
Themes



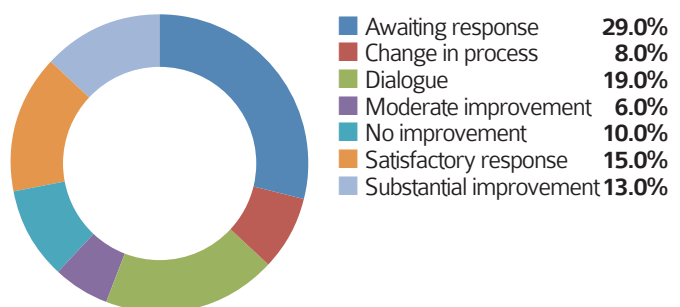
Activities



Company contact



Outcome



Compliance With The Myners' Report

Introduction

In 2000, UK government commissioned Paul Myners to undertake a review of institutional investment, publishing a report in 2001 which became established as the Myners' Principles on Good Investment Governance. The principles were updated through a Treasury report in October 2008, *'Updating the Myners' Principles: A Response to Consultation'*.

Local government pension funds are required, by regulation, to produce a statement on their compliance with the Myners' Principles on the basis of 'comply or explain', including the statement in their annual report. CIPFA produces guidance and advises on the application of the Myners' Principles to local government pension funds. This guidance (Investment Decision Making and Disclosure 2009) has been followed in the production of this statement.

Executive Summary

The West Midlands Pension Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice. The power to establish and maintain pension funds is set out in various local government regulations, some of which establish limits and controls on investment activity. The Myners' Principles support and complement these regulations. The Secretary of State has previously highlighted the principle contained in *Roberts v Hapwood* whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

“ 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. ”

The Myners' Principles are seen as supporting this approach.

This statement links with and is supported by the Fund's *SIP (Statement of Investment Principles)*, *FSS (Funding Strategy Statement)* and *Governance Strategy*, where much supporting detail is contained.

Compliance With The Myners' Report

Demonstration of Compliance with Myners' Principles

The table demonstrates how Myners-compliant the Fund is; details of which are further described on the following pages.

| Supporting Documents and Operational Arrangements | Myners' Principle | | | | | |
|---|-------------------|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| a) City Council Constitution | ✓ | | | | | |
| b) Fund Strategies and Statement | | | | | | |
| • SIP | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| • FSS | ✓ | ✓ | ✓ | ✓ | | ✓ |
| • Social Responsibility Statement | ✓ | ✓ | | | ✓ | ✓ |
| • Fund Governance Statement | ✓ | | | | | ✓ |
| • Communication Strategy | ✓ | | | | | ✓ |
| c) Procedures | | | | | | |
| • Compliance Manual | ✓ | | ✓ | | | |
| • External Audit | | | ✓ | | | |
| • Internal Audit | | | ✓ | | | |
| • Risk Assessment | | | ✓ | | | |
| • Business Plan | ✓ | | ✓ | ✓ | ✓ | ✓ |
| • Valuation Report | | ✓ | ✓ | | | ✓ |
| • Annual Report and Governance Report | | ✓ | ✓ | ✓ | ✓ | ✓ |
| d) Fund Reporting | | | | | | |
| • Quarterly Technical Asset Allocation | ✓ | | ✓ | ✓ | | |
| • Property Strategy | ✓ | ✓ | | ✓ | | |
| • Annual Returns | ✓ | | ✓ | ✓ | | ✓ |
| • Quarterly Compliance Report | | | | ✓ | | ✓ |
| • Quarterly Governance Activity | | | | | ✓ | ✓ |
| • Quarterly Investment Activity | ✓ | | | ✓ | | ✓ |
| • Employing Body Brief | | ✓ | | | | ✓ |
| • Annual Benefit Statements | | | | | | ✓ |
| e) Advisors | | | | | | |
| • Investments | ✓ | ✓ | ✓ | ✓ | | |
| • Actuary | ✓ | ✓ | ✓ | ✓ | | |
| • Company Governance | ✓ | ✓ | | | ✓ | |
| • Finance and Legal | ✓ | ✓ | ✓ | | | |
| f) Support Arrangements | | | | | | |
| • Custodian | ✓ | | | | | |
| • Management Agreements | ✓ | ✓ | ✓ | | ✓ | |

Compliance With The Myners' Report

| Principles | Key points | Demonstration of Compliance |
|---|--|---|
| <p>Principle 1: Effective Decision-Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. | <ol style="list-style-type: none"> 1) Elected members have a fiduciary duty to the Fund, Scheme members and local taxpayers. 2) Functions can be delegated and investment managers used, but overall responsibility rests with members. 3) Proper advice should be taken and the regulations define this as: "the advice of a person who is reasonably believed...to be qualified by his ability in and practical experience of financial matters." 4) The Wednesbury Principle (1945) applies to all parties involved in the arrangements and ensures they direct themselves properly in law and demonstrate reasonable behaviour. 5) All councils must appoint one of its officers to have responsibility for ensuring arrangements are in a place for the proper/financial administration of its financial affairs. 6) The role of the Pensions Committee and key officers should be clear in the Council's constitution. 7) Best governance practices should be followed. 8) The Superannuation Committee should ensure it has appropriate skills and is run in a way to facilitate effective decision-making. | <p>The Fund produces a business plan and a medium-term financial plan, together with supporting codes and policies:</p> <ul style="list-style-type: none"> • SIP (Statement of Investment Principles) • FSS (Funding Strategy Statement) • Governance Statement <p>The functions delegated and the administration of the Fund's activities are undertaken with appropriately trained staff, use of professional advisors where necessary, in accordance with the Council's constitution and Fund's compliance manual and procedures.</p> |
| <p>Principle 2: Clear Objectives</p> <p>An overall investment objective(s) should be set out for the fund that takes account of the Scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and Scheme employers, and these should be clearly communicated to advisors and investment managers.</p> | <ol style="list-style-type: none"> 1) A three-yearly actuarial valuation as required by regulation. 2) A full range of investment opportunities should be considered. 3) A strategic asset allocation should be used and reviewed regularly. 4) Robust investment management agreements should be used. 5) The targeted investment return and associated risks should reflect the liabilities, assets held and link to the actuarial process. 6) The provision for taking proper advice should be demonstrated. | <p>The Fund takes a range of specialist advice in formulating its investment strategy, SIP and FSS, ensuring all link to the common objectives that arise from the actuarial process with emphasis on managing investment risk relative to fund cash flows and need for stable contribution rates.</p> <p>These policies are reviewed regularly and interim valuations used to track progress between valuations.</p> <p>The Superannuation Committee places significant emphasis on reviewing and monitoring the investment strategy with regular reviews and input from professional and experienced advisors. The Investment Sub-Committee regularly reviews new investment opportunities and make up of asset portfolios.</p> |

Compliance With The Myners' Report

| Principles | Key points | Demonstration of Compliance |
|---|---|--|
| <p>Principle 3: Risks and Liabilities</p> <p>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p> | <ol style="list-style-type: none"> 1) The Superannuation Committee should set a clear investment objective. 2) Investment risk should be fully evaluated, monitored and the link to employing bodies' ability to meet liabilities recognised. 3) Appropriate guarantees should be used to protect against employer default. 4) The need for affordable, stable contributions should be reflected in the work of the Pension Committee. 5) The Superannuation Committee should satisfy itself about the standards of internal controls applied are sound and robust. 6) An understanding of risk should be demonstrated and reported upon. | <p>Members set the Fund's investment strategy having regard to the liabilities and achieving stable affordable contributions, consulting with interested parties regularly.</p> <p>The investment setting process takes account of short-term market volatility, but with strong positive cash flows places great emphasis on the medium to long-term view.</p> <p>The Fund's annual report includes a statement on overall risk management of all activities.</p> |
| <p>Principle 4: Performance Assessment</p> <p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to Scheme members.</p> | <ol style="list-style-type: none"> 1) Extensive formal performance measurement of investments, managers and advisors should be in place and relate to the investment objectives. 2) Effectiveness of the Superannuation Committee should be reported upon at regular intervals. 3) Returns should be measured on a quarterly basis in accordance with the regulations; a longer time frame (three to seven years) should be used in order to assess the effectiveness of fund management arrangements and review the continuing compatibility of the asset/liability profile. | <p>The overall investment objectives link to portfolios and the individual investment objectives. The performance measurement is made up of targets driven by the investment strategy and its component parts.</p> <p>An external measurement service is used to provide robust and reliable information. Off-target performance is reviewed by the Superannuation Committee and Investment Sub-Committee and appropriate action agreed.</p> <p>The regular annual report details the work and achievement of the Committee.</p> |

Compliance With The Myners' Report

| Principles | Key points | Demonstration of Compliance |
|--|--|--|
| <p>Principle 5: Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> ● adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. ● include a statement of their policy on responsible ownership in the statement of investment principles. ● report periodically to Scheme members on the discharge of such responsibilities. | <ol style="list-style-type: none"> 1) Disclose approach to company governance matters and socially responsible issues in SIP. 2) Define expectations of managers on company governance matters. 3) The Institutional Shareholders' Committee of Principles for institutional shareholders and/or agents should be followed. | <p>The Fund co-ordinates its corporate governance activity, voting its holding in companies with the help of a specialist advisor, in accordance with its company voting template. It publishes on a quarterly basis its actions, and a clear statement of its position on SRI matters is produced. Works in partnership with other funds are actively promoting good company governance, eg, LAPFF.</p> |
| <p>Principle 6: Transparency and Reporting</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> ● act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. ● provide regular communication to Scheme members in the form they consider most appropriate. | <ol style="list-style-type: none"> 1) Maintain a sound governance policy and demonstrate its implementation. 2) Maintain a communication policy and strategy. 3) Ensure all required strategies and policies are published in a clear transparent manner. 4) Annual reports are a demonstration of accountability to stakeholders and should be comprehensive and readily available. | <p>The Fund produces and reviews regularly its key policy and strategy documents, publishing them on its website. All members, actives, deferred and pensioners receive regular communications on the Fund's activities and performance. A comprehensive annual report is produced.</p> |

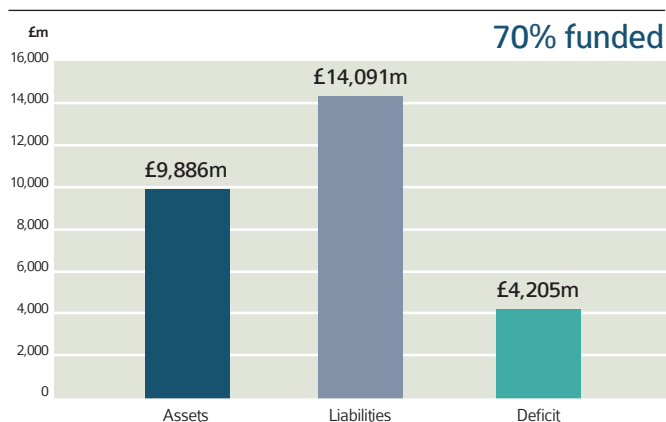
Statement of the Consulting Actuary

Accounts for the year ended 31 March 2014

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the West Midlands Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £9,886 million represented 70% of the Fund's past service liabilities of £14,091 million (the 'funding target') at the valuation date. The deficit at the valuation date was therefore £4,205 million.



The valuation also showed that a common rate of contribution of 13.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular, there was an increase in gilt yields which underpin the liability assessment. This improved the funding position materially to 75% with a resulting deficit of £3,275 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average, across the Fund, the updated deficit would be eliminated by a contribution addition of £167m per annum increasing at 4.35% per annum (equivalent to approximately 10.3% of projected pensionable pay at the valuation date) for 22 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the *Funding Strategy Statement (FSS)*. Any different approaches adopted, eg, with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the funding target and the common contribution rate were as follows:

| | For past services liabilities (funding target) | For future services liabilities (common contribution rate) |
|--|--|--|
| Rate of return on investments (discount rate) | 4.6% pa | 5.6% pa |
| Rate of pay increases (long-term) | 4.35% pa | 4.35% pa |
| Rate of increases in pensions in payment (in excess of guaranteed minimum pension) | 3.0% pa | 3.0% pa |

**allowance was also made for short-term public sector pay restraint over a three- to five-year period depending on the individual employer.*

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

| | 31 March 2013 | 31 March 2014 |
|--|---------------|---------------|
| Rate of return on investments (discount rate) | 4.2% pa | 4.5% pa |
| Rate of pay increases | 4.15% pa | 4.15% pa |
| Rate of increases in pensions in payment (in excess of guaranteed minimum pension) | 2.4% pa | 2.4% pa |

**includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.*

Statement of the Consulting Actuary

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% pa versus 4.2% pa). The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £15,611 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£1,249 million. Adding interest over the year increases the liabilities by c£656 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£63 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£401 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £14,680 million.

Paul Middleman

Fellow of the Institute and faculty of Actuaries
Mercer Limited

Date: September 2014

Independent Auditors' Statement to the Members of the West Midlands Pension Fund (the 'Authority') on the Pension Fund Financial Statements

Statement on the Financial Statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of Wolverhampton City Council for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by West Midlands Pension Fund, comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Responsibilities for the Financial Statements and Our Examination

Our responsibilities and those of the Responsible Financial Officer

As explained more fully in the Statement of Responsibilities set out on page x of the audited Statement of Accounts the Responsible Financial Officer is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of Wolverhampton City Council. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consists of The Chair's and Directors' Statements, the Statutory Information, the Management Reports, the Statistical Information and Risk Management and the Appendices.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, 30 September 2014, and the date of this statement.

Richard F Bacon (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

30 September 2014

- The maintenance and integrity of the Wolverhampton City Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions

Statement of Responsibilities

The Council's Responsibilities

The council is required to:

- i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Assistant Director Finance.
- ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- iii) Approve the Statement of Accounts.

The Assistant Director Finance's Responsibilities

The Assistant Director Finance is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Assistant Director Finance has:

- i) Selected suitable accounting policies and then applied them consistently.
- ii) Made judgements and estimates that were reasonable and prudent.
- iii) Complied with the Code.

The Assistant Director Finance has also:

- i) Kept proper accounting records which were up to date.
- ii) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the Assistant Director Finance

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the council as at 31 March 2014 and its income and expenditure for the year ended the same date.

Mark Taylor

Assistant Director Finance

30 June 2014

Fund Account

| 2012/13 £m | | Notes | 2013/14 £m |
|----------------|--|-------|-----------------|
| | Contributions and benefits | | |
| 410.9 | Contributions receivable | P7 | 419.3 |
| 22.6 | Transfers in | P8 | 11.3 |
| 16.2 | Other income | P9 | 16.2 |
| 449.7 | Total contributions and other income | | 446.8 |
| 445.1 | Benefits payable | P10 | 472.4 |
| 15.8 | Payments to and on account of leavers | P11 | 23.0 |
| 0.2 | Other payments | | 0.3 |
| 5.3 | Administration expenses | P12 | 5.0 |
| 466.4 | Total benefits and other expenditure | | 500.7 |
| (16.7) | Net reductions from dealings with members | | (53.9) |
| | Returns on investments | | |
| 136.8 | Investment income | P15 | 134.8 |
| 846.0 | Changes in value of investments | P17 | 85.4 |
| 97.7 | Profit and losses on disposal of investments | | 103.0 |
| (11.3) | Investment management expenses | P12 | (11.2) |
| 1,069.2 | Net return on investments | | 312.0 |
| 1,052.5 | Net increase in the Fund during the year | | 258.1 |
| 8,833.8 | Net assets of the Fund at the beginning of the year | | 9,886.3 |
| 9,886.3 | Net assets of the Fund at the end of the year | | 10,144.4 |

Net Assets Statement

| 2012/13 £m | | Notes | 2013/14 £m |
|----------------|--|------------|-----------------|
| | Investment assets (at market value) | P16 | |
| 173.9 | Fixed interest securities | | 171.3 |
| 943.5 | UK equities | | 971.3 |
| 2,072.5 | Overseas equities | | 3,155.9 |
| 5,729.4 | Pooled investment vehicles | | 4,908.2 |
| 567.6 | Property | | 629.8 |
| 82.9 | Foreign currency holdings | | 42.2 |
| 241.1 | Cash deposits | | 211.6 |
| - | Other investment assets | | - |
| 15.4 | Outstanding dividend entitlement and recoverable withholding tax | | 4.9 |
| 9,826.3 | Investment assets | | 10,095.2 |
| | Investment liabilities (at market value) | P16 | |
| (0.1) | Other investment liabilities | | (3.3) |
| (0.1) | Investment liabilities | | (3.3) |
| 9,826.2 | Net investment assets | | 10,091.9 |
| 73.2 | Current assets | P19 | 71.1 |
| (13.1) | Current liabilities | P20 | (18.6) |
| 9,886.3 | Net assets of the Fund at the end of the year | | 10,144.4 |

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the actuarial certificate/statement.

The notes form part of these financial statements.

Notes to the Accounts

1. General

The West Midlands Pension Fund is administered by Wolverhampton City Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund.

The City Council Pensions Committee administers the pension fund function. It meets at approximately quarterly intervals and has members from each of the seven metropolitan district councils in the West Midlands region. An Investment Advisory Sub-Committee and a Joint Consultative Panel have been established to deal with the two areas of management and administration of the Fund.

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations. This includes:

- i) the LGPS (Benefits, Membership and Contribution) Regulations 2007 (as amended);
 - ii) the LGPS (Administration) Regulations 2008 (as amended); and
 - iii) the LGPS (Management and Investment of Funds) Regulations 2009.
- iv) the Local Government Pension Scheme Regulations 2013

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contribution) Regulations 2007 and range from 5.5% and 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Employer contribution rates during 2013/14 ranged from 2.7% to 27.8% of pensionable pay.

The Fund's Statement of Investment Principles (SIP) can be found in this report and on the Fund's website at wmpfonline.com.

2. Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2013/14 financial year and its position at the year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 5 of these accounts.

3. Statement of Accounting Policies

a) Inclusion of Income and Expenditure

i) Membership of the Fund

Membership of the Fund is available for all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region, together with employees of admitted bodies.

ii) Fund Account

In the Fund account, income and expenditure are accounted for in the year in which they arise by the creation of payables and receivables at the year end where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year-end (see note 8).

iii) Contribution Income

Contributions receivable have been included in the accounts on the accruals basis at the rates set out in notes 1 and 5 for basic contributions. Additional contributions as notified by employers for the period have also been included.

Where member employing organisations have not submitted certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns of these bodies.

iv) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who had either joined or left the scheme as at 31 March 2014, calculated in accordance with the Local Government Pension Scheme regulations (see notes 8 and 11). They are accounted for when trustees of the receiving scheme have agreed to accept the transfer.

v) Investment Income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period, where known to be due, has been accrued for in the accounts.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property-related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

vi) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at 31 March 2014 relating to the financial year 2013/14.

vii) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2014.

b) Valuation of Investments

The market values of investments as shown in the net assets statement have been determined as follows:

i) Quoted Securities

Securities have been valued at the bid-market price ruling on 31 March 2014 where a quotation was available on a recognised stock exchange or unlisted securities market.

ii) Unquoted Securities

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor report has not been received from the fund manager the security is valued at cost.

Notes to the Accounts

iii) Pooled Investment Vehicles

Pooled investment vehicles are stated at the bid-point of the latest prices quoted or the latest single market prices. In the case of the pooled investment vehicles (which are accumulation funds), change in market value also includes income, net of withholding tax, which is reinvested in the Fund.

iv) Freehold and Leasehold Properties

These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, Chartered Surveyors as at 31 March 2014. One-third of the commercial property portfolio is valued fully in March each year, with the remaining two-thirds being a 'desktop' valuation. The valuation undertaken at 31 March 2014 was therefore one-third full valuation, and the remaining two-thirds, desktop valuations. Agricultural properties were valued by Savills Plc, Agricultural Valuers at the same date.

v) Foreign Currencies

Investments held in foreign currencies have been valued as set out in paragraphs 3b (i) to 3b (ii) on the previous page and translated at exchange rates ruling at 31 March 2014.

vi) Movement in the Net Market Value of Investments

Any gains or losses arising on translation of investments into sterling are accounted for as a change in market value of investment.

c) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

d) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

e) Investment and Administration Expenses

All investment management expenses are accounted for on an accruals basis.

External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody, and as such will fluctuate as the valuations change.

In addition, performance-related fees are negotiated with a number of managers and performance-related fees totalled £1.3 million in 2013/14 and £2.2 million in 2012/13.

Where a management fee notification has not been received by 31 March, an estimate is used for inclusion in the Fund account.

The cost of using advice from external consultants is included in investment management fees.

The cost of in-house management is charged to the Fund, as is an element of the administering authority's officers time spent on management of the Fund.

f) Membership

Overall membership of the Fund at the end of the year was as follows:

| 2012/13 '000 | | 2013/14 '000 |
|-----------------|-------------------|-----------------|
| 97.3 | Active members | 99.7 |
| 77.5 | Pensioner members | 80.6 |
| 86.5 | Deferred members | 90.0 |

A detailed list of member bodies is available at note 24.

4. Critical Judgements in Applying Accounting Policies

Unquoted Private Equity Investments

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor valuation report has not been received from the fund manager, the security is valued at cost. The value of unquoted private equity at 31 March 2014 was £1,240.5 million (£1,231.9 million at 31 March 2013).

Fund Liability

The Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 5. This estimate is subject to significant variances based on changes to the underlying assumptions.

a) Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Actuarial Present Value of Promised Retirement Benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercer Limited, the Fund's consulting actuaries, are engaged to provide expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability; however, an increase in assumed earnings inflation or assumed life expectancy would significantly increase the pension liability as detailed by the Fund's consulting actuary below:

| Change in assumptions – year ended 31st March 2014 | Approx % increase in liabilities | Approx monetary value £m |
|---|--|--------------------------------|
| 0.5% pa decrease in discount rate | 10% | 1,449.0 |
| One-year increase in member life expectancy | 2% | 318.0 |
| 0.5% pa increase in salary increase rate | 2% | 315.0 |
| 0.5% pa increase in CPI inflation | 9% | 1,375.0 |

Notes to the Accounts

Private Equity

Uncertainties

Private equity investments are not publicly listed and, as such, there is a degree of estimation involved in the valuation.

Effect if actual results differ from assumptions

The total private equity investments in the financial statements are £1,240.5 million. There is a risk that this investment may be under- or overstated in the accounts.

Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£62.0 million.

Hedge Funds

Uncertainties

Hedge funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the directors or independent administrators judge necessary. Where these investments are not publicly listed, there is a degree of estimation involved in the valuation.

The total hedge funds value in the financial statements is £217.5 million. There is a risk that these investments may be under- or overstated in the accounts. Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£10.9 million.

5. Actuarial Valuation

A full actuarial valuation of the Fund was made as at 31 March 2013 by the Fund's actuary, P Middleman of Mercer Human Resource Consulting Limited. The actuary has determined the contribution rates with effect from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £9,886.0 million represented 70% of the funding target of £14,091.0 million at the valuation date.

The valuation also showed that a common rate of contribution of 13.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure, effective from 1 April 2014.

Adopting the same method and assumptions as used for calculating the funding target, the deficit could be eliminated by an average additional contribution rate of 10.3% of pensionable pay for 22 years.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report dated 31 March 2014. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

As a result of the valuation, a revised rates and adjustments certificate was prepared for the three years commencing 1 April 2014. For comparison purposes, the figures for the two preceding years are also shown. The rates payable by the unitary authorities were certified as shown below:

Future service rate (% of pay) plus lump-sum (£)

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Birmingham City Council | 12.1% plus £27,800,000 | 12.1% plus £29,100,000 | 12.3% plus £40,113,600 | 12.9% plus £41,870,400 | 13.4% plus £43,724,800 |
| Coventry City Council | 12.1% plus £6,600,000 | 12.1% plus £6,900,000 | 12.2% plus £9,467,000 | 12.7% plus £12,395,000 | 13.1% plus £15,518,000 |
| Dudley MBC | 11.8% plus £5,700,000 | 11.8% plus £6,000,000 | 12.1% plus £7,418,000 | 12.7% plus £9,174,000 | 13.2% plus £10,931,000 |
| Sandwell MBC | 11.7% plus £7,900,000 | 11.7% plus £8,300,000 | 13.1% plus £11,614,400 | 13.1% plus £15,323,200 | 13.1% plus £19,227,200 |
| Solihull MBC | 11.7% plus £4,300,000 | 11.7% plus £4,500,000 | 12.3% plus £17,217,000 | 12.9% | 13.5% |
| Walsall MBC | 11.7% plus £8,000,000 | 11.7% plus £8,400,000 | 13.2% plus £14,250,000 | 13.2% plus £14,835,000 | 13.2% plus £15,518,000 |
| Wolverhampton City Council | 12.2% plus £7,400,000 | 12.2% plus £7,800,000 | 12.6% plus £9,000,000 | 13.1% plus £9,900,000 | 13.5% plus £10,900,000 |

Notes to the Accounts

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the funding target and the common contribution rate were as follows:

| | For past service liabilities | For future service liabilities |
|--|------------------------------|--------------------------------|
| Rate of return on investments | 4.6% per annum | 5.6% per annum |
| Rate of pay increases | 4.35% per annum | 4.35% per annum |
| Rate of increases in pensions in payment (in excess of guaranteed minimum pension) | 2.6% per annum | 2.6% per annum |

*Allowance was also made for short-term public sector pay restraint over a three/five-year period depending on the individual employer.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, the following financial assumptions have been used:

| | 31 March 2013 | 31 March 2014 |
|--|-----------------|------------------|
| Rate of return on investments (discount rate) | 4.2% per annum | 4.5% per annum |
| Rate of pay increases | 4.15% per annum | 4.15% per annum* |
| Rate of increases in pensions in payment (in excess of guaranteed minimum pension) | 2.4% per annum | 2.4% per annum |

*includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £15,611.0 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£1,249.0 million. Adding interest over the year increases the liabilities by c£656.0 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£63.0 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual versus expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£401.0 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £14,680.0 million.

6. Taxation

Value Added Tax (VAT)

The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

Taxation of Overseas Investment Income

The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets. Where relief is available, it may be either in full at source (USA, Belgium, Australia, Finland and Norway), or partial relief by claim (Austria, Denmark, France, Germany, Netherlands, Switzerland and Spain).

In some markets (Poland, Canada, Italy and Sweden) tax is deducted at the treaty rate so that no further adjustment is required, and there are also markets (Malaysia, Hong Kong and Singapore) where no double taxation agreements exist and where the full amount is payable.

7. Contributions Receivable

| 2012/13 £m | | 2013/14 £m |
|---------------|-------------------------------------|---------------|
| | From employers | |
| 294.8 | Basic contributions | 301.4 |
| 0.5 | Augmented membership | 0.3 |
| 8.3 | Additional cost of early retirement | 8.8 |
| 303.6 | | 310.5 |
| | From employees | |
| 106.4 | Basic contributions | 107.8 |
| 0.9 | Additional contributions | 1.0 |
| 107.3 | | 108.8 |
| 410.9 | Total contributions | 419.3 |

The additional contributions above represent the purchase of added membership or additional benefits under the scheme and are included in the revenue accounts.

One admitted body, Black Business in Birmingham, terminated their agreement in December 2008 and is now in administration with an outstanding liability identified by the actuary of £128,200.

Payments can be analysed by type of member body as follows:

| 2012/13 £m | | 2013/14 £m |
|---------------|-------------------------|---------------|
| 30.8 | Administering authority | 32.9 |
| 361.4 | Scheme employers | 367.8 |
| 18.7 | Admitted employers | 18.6 |
| 410.9 | Total | 419.3 |

8. Transfers In

| 2012/13 £m | | 2013/14 £m |
|---------------|--|---------------|
| 22.6 | Individual transfers in from other schemes | 11.3 |

Notes to the Accounts

9. Other Income

| 2012/13 £m | | 2013/14 £m |
|---------------|--|---------------|
| | Benefits recharged to employers | |
| 9.1 | Compensatory added years | 9.0 |
| 7.1 | Pensions increases | 7.2 |
| - | Magistrates courts committee | - |
| 16.2 | Total | 16.2 |

10. Benefits Payable

An analysis of expenditure on benefits by type is given below:

| 2012/13 £m | | 2013/14 £m |
|---------------|--------------------------------|---------------|
| | Pensions | |
| 328.8 | Retirement pensions | 346.0 |
| 25.7 | Widows' pensions | 26.5 |
| 1.0 | Children's' pensions | 0.9 |
| 3.1 | Widowers' pensions | 3.5 |
| 0.1 | Ex-spouse | 0.1 |
| 0.1 | Equivalent pension benefits | 0.1 |
| - | Civil partnership | - |
| - | Cohabiting partners | - |
| 358.8 | Total pensions | 377.1 |
| | Lump-sum benefits | |
| 74.6 | Retiring allowances | 83.5 |
| 11.7 | Death grants | 11.8 |
| 86.3 | Total lump-sum benefits | 95.3 |
| 445.1 | Total benefits payable | 472.4 |

The total benefits payable can be analysed by type of member body as follows:

| 2012/13 £m | | 2013/14 £m |
|---------------|-------------------------|---------------|
| 38.1 | Administering authority | 40.8 |
| 379.7 | Scheme employers | 400.8 |
| 27.3 | Admitted employers | 30.8 |
| 445.1 | Total | 472.4 |

11. Payments To and On Account of Leavers

| 2012/13 £m | | 2013/14 £m |
|---------------|---|---------------|
| 12.8 | Individual transfers out to other schemes | 20.2 |
| - | Refunds of contributions | - |
| - | State scheme premiums | - |
| 3.0 | Bulk pension transfer increases | 2.8 |
| 15.8 | Total | 23.0 |

12. Investments and Administration Expenses

Costs incurred in the management of the investments of the Fund and the administration of the Fund have been charged to the Fund in accordance with the Local Government Pension Scheme regulations and can be analysed as follows:

| 2012/13 £m | | 2013/14 £m |
|---------------|------------------------------------|---------------|
| | Administration | |
| 4.8 | Pensions administration | 4.2 |
| 0.5 | Actuarial fees | 0.7 |
| - | Audit fees | 0.1 |
| - | Legal and other professional fees | - |
| 5.3 | Total administration | 5.0 |
| | Investments | |
| 8.8 | External management of investments | 8.5 |
| 2.1 | In-house management of investments | 2.1 |
| - | Performance measurement service | - |
| 0.1 | Property and legal fees | 0.2 |
| 0.3 | Safe custody expenses | 0.4 |
| 11.3 | Total investments | 11.2 |

Performance-related fees are negotiated with a number of managers. Included in external management of investments are performance-related fees of £1.3 million in 2013/14 and £2.2 million in 2012/13.

Notes to the Accounts

13. Senior Officers' Remuneration

The following table sets out the remuneration disclosures for senior officers (with reference to notes where applicable):

| Post title/name | | Salary, fees and allowances £ | Bonuses £ | Expenses allowances £ | Termination benefits £ | Employers' pension contribution £ | Fund responsibilities ¹ £ | Total remuneration £ |
|---|----------------|----------------------------------|--------------|--------------------------|---------------------------|--------------------------------------|---|-------------------------|
| Senior officers with a salary of less than £150,000 per year | | | | | | | | |
| Director of Pensions | 2013/14 | 122,850 | - | - | - | 23,464 | - | 146,314 |
| | 2012/13 | 120,831 | - | 6,627 | - | 23,090 | - | 150,548 |
| Assistant Director Investments ² | 2013/14 | 50,897 | - | 575 | - | 9,721 | - | 61,193 |
| | 2012/13 | - | - | - | - | - | - | - |

¹The costs of West Midlands Pension Fund responsibilities are funded by the West Midlands Pension Fund and not by Wolverhampton City Council.

²The post of Assistant Director Investments (within the West Midlands Pension Fund) was created on 27 August 2013 with an annual salary of £85,287.

The following tables show the number of other employees whose remuneration for the year (excluding employer's pension contributions) exceeded £50,000.

| Remuneration band | 2013/14 | | | 2012/13 | | |
|---------------------|----------|-----------------------------------|--|---------------------|-----------------------------------|--|
| | Fund | Total number of employees in band | Employees receiving termination packages (included in total) | Fund | Total number of employees in band | Employees receiving termination packages (included in total) |
| £145,000 - £149,999 | - | - | - | £145,000 - £149,999 | - | - |
| £140,000 - £144,999 | - | - | - | £140,000 - £144,999 | - | - |
| £135,000 - £139,999 | - | - | - | £135,000 - £139,999 | - | - |
| £130,000 - £134,999 | - | - | - | £130,000 - £134,999 | - | - |
| £125,000 - £129,999 | - | - | - | £125,000 - £129,999 | - | - |
| £120,000 - £124,999 | - | - | - | £120,000 - £124,999 | 1 | 1 |
| £115,000 - £119,999 | - | - | - | £115,000 - £119,999 | - | - |
| £110,000 - £114,999 | - | - | - | £110,000 - £114,999 | - | - |
| £100,000 - £104,999 | - | - | - | £100,000 - £104,999 | - | - |
| £105,000 - £109,999 | - | - | - | £105,000 - £109,999 | - | - |
| £95,000 - £99,999 | - | - | - | £95,000 - £99,999 | - | - |
| £90,000 - £94,999 | - | - | - | £90,000 - £94,999 | - | - |
| £85,000 - £89,999 | - | - | - | £85,000 - £89,999 | - | - |
| £80,000 - £84,999 | - | - | - | £80,000 - £84,999 | 1 | 1 |
| £75,000 - £79,999 | - | - | - | £75,000 - £79,999 | - | - |
| £70,000 - £74,999 | - | - | - | £70,000 - £74,999 | - | - |
| £65,000 - £69,999 | - | - | - | £65,000 - £69,999 | - | - |
| £60,000 - £64,999 | 1 | 1 | 1 | £60,000 - £64,999 | - | - |
| £55,000 - £59,999 | 1 | 1 | - | £55,000 - £59,999 | 3 | 3 |
| £50,000 - £54,999 | 2 | 2 | 2 | £50,000 - £54,999 | 1 | 1 |
| Total | 4 | 4 | 3 | Total | 6 | 6 |

Notes to the Accounts

14. Exit Packages

The following table provides information about exit packages payable by the Fund during the year.

| 2012/13 | | | | | | 2013/14 | | | | | | |
|------------|-------------|-----------|----------|----------|-------------|-----------------------------|------------|-------------|-----------|-------------|----------|-------------|
| Compulsory | | Voluntary | | Total | | Value of individual package | Compulsory | | Voluntary | | Total | |
| Number | £m | Number | £m | Number | £m | | Number | £m | Number | £m | Number | £m |
| - | - | - | - | - | - | £150,001 to £200,000 | - | - | - | - | - | - |
| - | - | - | - | - | - | £100,001 to £150,000 | - | - | - | - | - | - |
| - | - | - | - | - | - | £80,001 to £100,000 | - | - | - | - | - | - |
| 1 | 0.08 | - | - | 1 | 0.08 | £60,001 to £80,000 | - | - | - | - | - | - |
| - | - | - | - | - | - | £40,001 to £60,000 | - | - | 1 | 0.04 | 1 | 0.04 |
| - | - | - | - | - | - | £20,001 to £40,000 | 1 | 0.02 | 2 | 0.05 | 3 | 0.07 |
| - | - | - | - | - | - | Less than £20,000 | 1 | 0.02 | 3 | 0.04 | 4 | 0.06 |
| 1 | 0.08 | - | - | 1 | 0.08 | Total | 2 | 0.04 | 6 | 0.13 | 8 | 0.17 |

Notes to the Accounts

15. Investment Income

Investment income is analysed below:

| 2012/13 £m | | 2013/14 £m |
|---------------|-------------------------------------|---------------|
| | Dividends and interest | |
| | <i>Fixed-interest securities</i> | |
| 8.5 | UK private sector – quoted | 8.8 |
| | <i>Equities</i> | |
| 33.2 | UK | 31.9 |
| 43.6 | Overseas | 43.0 |
| | <i>Pooled investment vehicles</i> | |
| 22.8 | UK | 19.8 |
| - | UK: reinvested income, prior years | |
| 1.8 | Overseas equities | 1.9 |
| 0.1 | Private equity | - |
| 0.9 | Interest on cash deposits | 1.3 |
| 0.9 | Stocklending | 0.6 |
| - | UK tax, irrecoverable | (0.1) |
| (1.9) | Overseas taxation | (1.4) |
| 109.9 | Total dividends and interest | 105.8 |
| 35.7 | Property management income | 37.4 |
| (8.8) | Property management expenses | (8.4) |
| 26.9 | Total property management | 29.0 |
| 136.8 | Total investment income | 134.8 |

Stocklending

The stocklending programme provides for direct equity investments to be lent. At the year end, the value of quoted equities on loan was £171.4m (2013: £43.9m) in exchange for which the custodian held collateral worth £184.6m (2013: £50.5m). Collateral consists of acceptable securities and government debt.

16. Net Investment Assets

Further analysis of the market value of investments as set out in the net assets statement is given below.

Segregated accounts are held separately from the main account by the global custodian, and contain assets managed by some of the Fund's external managers.

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|--------------------------------------|---------------------|
| | Fixed-interest securities | |
| 173.9 | UK companies - segregated (external) | 171.3 |
| 173.9 | | 171.3 |
| | UK equities | |
| 943.5 | Quoted | 971.3 |
| - | Quoted - segregated (external) | - |
| 943.5 | | 971.3 |
| | Overseas equities | |
| 1,713.4 | Quoted | 1,763.9 |
| 359.1 | Quoted - segregated (external) | 1,392.0 |
| 2,072.5 | | 3,155.9 |

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|--|---------------------|
| | Pooled investment vehicles | |
| | Managed funds | |
| 196.4 | UK quoted, fixed interest | 192.5 |
| 646.4 | Other fixed interest | 600.8 |
| 963.2 | UK quoted, index-linked | 948.6 |
| 858.8 | Overseas equities | 259.7 |
| 255.5 | UK unquoted equities | 269.6 |
| 1,509.7 | Overseas unquoted equities | 1,453.8 |
| 593.0 | UK absolute returns | 553.0 |
| 105.9 | Overseas absolute returns | 89.6 |
| 37.6 | UK property | 47.0 |
| 225.7 | Foreign property | 211.3 |
| | Unit trusts | |
| 26.6 | UK quoted equities | 66.3 |
| 303.6 | Overseas equities | 209.4 |
| 7.0 | Overseas property | 6.5 |
| 5,729.4 | | 4,908.2 |
| | Property | |
| 532.7 | UK freehold | 586.8 |
| 34.9 | UK leasehold* | 43.0 |
| 567.6 | | 629.8 |
| | Foreign currency holdings | |
| 29.6 | United States dollars | 21.3 |
| 34.0 | Euro | 11.3 |
| 1.5 | Canadian dollars | 1.0 |
| 1.1 | Danish kroner | 0.4 |
| 0.4 | Hong Kong dollars | 0.6 |
| 3.2 | Swedish kroner | 0.5 |
| 4.3 | Swiss francs | 1.4 |
| 2.0 | Japanese yen | 1.4 |
| 1.2 | Norwegian kroner | 0.5 |
| - | Malaysian ringgits | - |
| - | Singapore dollars | 0.6 |
| 1.1 | Australian dollars | 1.1 |
| - | New Zealand dollars | 0.1 |
| 1.2 | Hungarian forints | 0.5 |
| 0.9 | Polish zloty | 0.7 |
| - | Israeli shekels | - |
| 1.2 | Turkish lira | 0.3 |
| 1.2 | Czech koruna | 0.5 |
| - | Korean won | - |
| 82.9 | | 42.2 |
| | Cash deposits | |
| 241.1 | UK | 211.6 |
| | Other investments | |
| (0.1) | Broker balances | (3.3) |
| 15.4 | Outstanding dividend entitlement and recoverable withholding tax | 4.9 |
| 9,826.2 | Total net investment assets | 10,091.9 |

*All leasehold properties are held on long leases

Notes to the Accounts

The following investments represent more than 5% of the net assets of the scheme:

| 31 March 2013 | | | 31 March 2014 | |
|--------------------|-------------------------------|--|-----------------------|-------------------------------|
| Market value £m | % of total market value | | Market value £m | % of total market value |
| | | Security | | |
| 664.0 | 6.8 | Legal & General - All Stocks Index-Linked Gilts Fund | 639.1 | 6.3 |

The proportion of the market value of investment assets managed in-house and by external managers at the year-end is set out below.

| 31 March 2013 | | | 31 March 2014 | |
|--------------------|-------------------------------|--|-----------------------|-------------------------------|
| Market value £m | % of total market value | | Market value £m | % of total market value |
| 3,497.3 | 35.6 | In-house | 3,615.5 | 35.7 |
| 26.6 | 0.3 | Managers: UK quoted | 33.2 | 0.3 |
| 131.1 | 1.3 | Managers: US quoted | 146.5 | 1.5 |
| 193.3 | 2.0 | Managers: European quoted | 236.8 | 2.3 |
| 37.6 | 0.4 | Managers: Japanese quoted | 36.2 | 0.4 |
| 107.4 | 1.1 | Managers: Pacific Basin | 69.5 | 0.7 |
| 609.3 | 6.2 | Managers: Emerging markets | 845.9 | 8.4 |
| 493.9 | 5.0 | Managers: Global equities | 526.1 | 5.2 |
| 1,979.9 | 20.2 | Managers: Fixed interest | 1,913.2 | 19.0 |
| 270.3 | 2.8 | Managers: Indirect property | 298.0 | 3.0 |
| - | - | Managers: Emerging market debt | 189.6 | 1.9 |
| 206.8 | 2.1 | Managers: Commodities | 293.4 | 2.9 |
| 326.5 | 3.3 | Managers: Infrastructure funds | 642.6 | 6.4 |
| 698.9 | 7.1 | Managers: Absolute return | 1,240.5 | 12.3 |
| 1,231.9 | 12.6 | Managers: Private equity | - | - |
| 9,810.8 | 100.0 | | 10,087.0 | 100.0 |
| 15.4 | | Outstanding dividend entitlement and recoverable withholding tax | 4.9 | |
| 9,826.2 | | Total investment assets | 10,091.9 | |

17. Investment Market Value Movements Analysis

The change in the value of investments during 2013/14 is set out below:

| | Value as at 31 March 2013 £m | Purchases at cost £m | Sales proceeds £m | Change in market value £m | Value at 31 March 2014 £m |
|--|------------------------------------|----------------------------|-------------------------|---------------------------------|---------------------------------|
| Fixed interest securities | 173.9 | - | - | (2.6) | 171.3 |
| UK equities | 943.5 | 29.0 | (25.9) | 24.7 | 971.3 |
| Overseas equities | 2,072.5 | 1,099.5 | (76.8) | 60.7 | 3,155.9 |
| Pooled investment vehicles | 5,729.4 | 1,029.2 | (1,809.8) | (40.6) | 4,908.2 |
| Property | 567.6 | 21.5 | (2.5) | 43.2 | 629.8 |
| | 9,486.9 | 2,179.2 | (1,915.0) | 85.4 | 9,836.5 |
| Broker balances | (0.1) | | | | (3.3) |
| Outstanding dividend entitlement and recoverable withholding tax | 15.4 | | | | 4.9 |
| Foreign currency | 82.9 | | | | 42.2 |
| Cash deposits | 241.1 | | | | 211.6 |
| Total investments | 9,826.2 | | | | 10,091.9 |

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profit and losses on the sale of investments shown in the Fund account includes an additional £103.0 million which represents profit realised on sale of the Fund's assets.

Purchases also include transfers in of investments, takeover of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, takeover proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

Notes to the Accounts

There were 125 late payments amounting to £2.3 million of contributions during the year which constituted employer-related investments until the amounts were received. Other than this, there were no employer-related investments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.2 million (2012/13: £0.4 million). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|----------------------------|---------------------|
| 0.1 | Equities - UK quoted | 0.1 |
| 0.3 | Equities - overseas quoted | 0.1 |
| 0.4 | | 0.2 |

The volatility of investment markets is an ever-present and longstanding feature of pension fund management, and valuations may vary, either up or down, throughout each day when exchanges are open. The change in the value of investments during 2012/13 is set out below:

| | Value as at 31 March 2012 £m | Purchases at cost £m | Sales proceeds £m | Change in market value £m | Value at 31 March 2013 £m |
|--|------------------------------------|----------------------------|-------------------------|---------------------------------|---------------------------------|
| Fixed interest securities | 158.8 | - | - | 15.1 | 173.9 |
| UK equities | 840.5 | 30.2 | (22.8) | 95.6 | 943.5 |
| Overseas equities | 1,779.3 | 186.8 | (154.5) | 260.9 | 2,072.5 |
| Pooled investment vehicles | 5,213.3 | 817.6 | (800.9) | 499.4 | 5,729.4 |
| Property | 615.4 | 13.4 | (36.2) | (25.0) | 567.6 |
| | 8,607.3 | 1,048.0 | (1,014.4) | 846.0 | 9,486.9 |
| Broker balances | 0.2 | | | | (0.1) |
| Outstanding dividend entitlement and recoverable withholding tax | 11.1 | | | | 15.4 |
| Foreign currency | 43.7 | | | | 82.9 |
| Cash deposits | 139.3 | | | | 241.1 |
| Total investments | 8,801.6 | | | | 9,826.2 |

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profit and losses on the sale of investments shown in the Fund Account includes an additional £97.7 million which represents profit realised on sale of the Fund's assets.

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|------------------------------------|---------------------|
| | Financial assets | |
| 846.0 | Fair value through profit and loss | 85.4 |
| 846.0 | Total | 85.4 |

| 31 March 2013 | | | 31 March 2014 | |
|----------------------|------------------|------------------------------------|----------------------|------------------|
| Carrying value £m | Fair value £m | | Carrying value £m | Fair value £m |
| | | Financial assets | | |
| 9,486.9 | 9,486.9 | Fair value through profit and loss | 9,836.5 | 9,836.5 |
| 339.3 | 339.3 | Loans and receivables | 255.4 | 255.4 |
| 9,826.2 | 9,826.2 | Total | 10,091.9 | 10,091.9 |

Notes to the Accounts

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed-income securities, quoted index-linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the *International Private Equity and Venture Capital Valuation Guidelines*, which follow the valuation principles of IFRS and US GAAP. The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

| | Quoted market price Level 1 £m | Using observable inputs Level 2 £m | With significant unobservable inputs Level 3 £m | Total £m |
|--|--------------------------------------|--|---|-----------------|
| Values at 31 March 2014 | | | | |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 5,941.9 | 1,528.6 | 2,366.0 | 9,836.5 |
| Loans and receivables | 255.4 | - | - | 255.4 |
| Total financial assets | 6,197.3 | 1,528.6 | 2,366.0 | 10,091.9 |
| Values at 31 March 2013 | | | | |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 5,538.4 | 1,484.3 | 2,464.2 | 9,486.9 |
| Loans and receivables | 339.3 | - | - | 339.3 |
| Total financial assets | 5,877.7 | 1,484.3 | 2,464.2 | 9,826.2 |

Notes to the Accounts

18. Investment Capital Commitments

Investment commitments at the end of the financial year in respect of future payments were:

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|--------------|---------------------|
| 808.7 | Non-equities | 920.8 |
| 139.0 | Property | 146.5 |
| 947.7 | | 1,067.3 |

These commitments relate to outstanding commitments due on funds held in the private equity, property and infrastructure portfolios.

19. Current Assets

Investment commitments at the end of the financial year in respect of future payments were:

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|--|---------------------|
| | Receivables and prepayments | |
| | Contributions receivable | |
| 21.6 | • Employers | - |
| 8.4 | • Employees | - |
| 42.5 | Other receivables | 71.2 |
| 72.5 | Total receivables and prepayments | 71.2 |
| 0.7 | Cash | (0.1) |
| 73.2 | Total current assets | 71.1 |

Note: Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This is to be paid in ten equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The balance due included in 'Other receivables' is £19.4 million (2012/13: £19.4 million). During 2013/14 no payments were received and deducted from the debtor as the payment for 2013/14 was made early (in March 2013).

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|--------------------------------|---------------------|
| | Analysis of receivables | |
| | Contributions receivable | |
| - | Central government bodies | - |
| 51.5 | Other local authorities | 21.5 |
| - | Public corporations | - |
| 21.0 | Other entities and individuals | 49.6 |
| 72.5 | Total | 71.1 |

20. Current Liabilities

Investment commitments at the end of the financial year in respect of future payments were:

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|---|---------------------|
| | Payables and receipts in advance | |
| (4.1) | Pensions and lump-sum benefits | (4.3) |
| (8.9) | Other payables | (14.3) |
| (0.1) | Trustee account | - |
| - | Bulk transfer-pension increases | - |
| (13.1) | Total | (18.6) |

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|--------------------------------|---------------------|
| | Analysis of payables | |
| (3.2) | Central government bodies | (8.2) |
| (0.1) | Other local authorities | (0.1) |
| (9.8) | Other entities and individuals | (10.3) |
| (13.1) | Total | (18.6) |

21. Additional Voluntary Contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions are not included within the fund accounts, in line with regulation 4 (2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009. The table below shows the activity for each AVC provider in the year.

| 31 March 2013 | | 31 March 2014 | |
|-------------------|---------------|-------------------|---------------|
| Equitable Life £m | Prudential £m | Equitable Life £m | Prudential £m |
| 2.9 | 27.5 | 2.7 | 30.2 |
| - | 7.3 | - | 7.3 |
| (0.4) | (5.0) | (0.4) | (7.8) |
| 0.2 | 0.4 | 0.1 | 6.1 |
| 2.7 | 30.2 | 2.4 | 35.8 |

22. Post-Year-End Transactions

The responsibility for the pension administration of the Staffordshire and West Midlands Probation Trust will transfer to Greater Manchester Pension Fund on 1 June 2014. The draft Local Government Pension Scheme (Offender Management) Regulations 2014 set out the basis of the bulk transfer calculation, together with specified payment dates. The valuation of the bulk transfer and the associated payment will be determined in 2014/15 between the actuaries of West Midlands Pension Fund and Greater Manchester Pension Fund. No adjustment is required to be made in the 2013/14 financial statements.

The Local Government Pension Scheme (LGPS) will change as at 1 April 2014. The changes are effected under the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. This sets out the basis for the future structure of pension payable through the LGPS from 2014/15 onwards and details the protections in place for existing pensions built up prior to 1 April 2014. The main change is that pensions accrued from 1 April 2014 will be based upon a career average revalued earnings (CARE) scheme, whereas previously this was based upon a final salary basis. The effect of the changes will be taken into account in actuarial valuations and will impact upon employers' contribution rates from 2014/15. There is no financial effect on the financial statements for 2013/14.

Notes to the Accounts

23. The Nature and Extent of Risks Arising From Financial Instruments

Risk Management

The Fund's activities expose it to a variety of financial risks including:

Investment risk - the possibility that the Authority will not receive the expected returns.

Credit risk - the possibility that the other parties might fail to pay amounts due to the Authority.

Liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.

Market risk - the possibility that financial loss might arise as a result of stock market movements. Currency risk, other price risk and interest rate risk are types of market risk.

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies covering specific areas relating to the Fund are as follows:

Investment Risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by investing with regard to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted a 90% exposure to return seeking assets such as equities, property, other alternatives with equity-like returns, including emerging market debt and higher return fixed interest investments, the remaining 10% being allocated to stabilising assets, such as UK Government bonds or gilts, both index-linked and conventional.

Risks in return seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of return seeking

assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

Counterparty Risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by Fund officers in relation to suitability and performance, in addition to compliance with regulatory and Fund-specific requirements.

Credit Risk

The Fund's deposits with financial institutions as at 31 March 2014 totalled £211.6 million in respect of temporary loans and treasury management instruments. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the *Compliance Manual*. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2014 is shown below:

Credit Rating Sensitivity Analysis

| Summary | Rating | Balances as at 31 March 2013 £m | Balances as at 31 March 2014 £m |
|-------------------------------------|--------|---------------------------------------|---------------------------------------|
| Money market funds | | | |
| AIM STIC Global Sterling Portfolio | AAA | 79.4 | 28.3 |
| HSBC Sterling Liquidity Fund | AAA | 81.7 | 43.3 |
| Northern Trust Global Sterling Fund | AAA | 1.2 | - |
| Short-term deposits | | | |
| Nationwide Building Society | A | - | 25.0 |
| Banco Santander | A | 8.0 | 23.5 |
| Lloyds Bank Plc | A | - | 13.0 |
| Coventry Building Society | A | 5.0 | 12.0 |
| Skipton Building Society | BBB- | - | 8.5 |
| Principality Building Society | BBB+ | - | 8.0 |
| Newcastle Building Society | | 5.0 | - |
| Barclays | | 9.0 | - |
| Bank deposit accounts | | | |
| Nat West Liquidity Select | A | 50.0 | 50.0 |
| Total | | 239.3 | 211.6 |

Notes to the Accounts

Liquidity Risk

The Fund has a comprehensive daily cashflow management procedure which seeks to ensure that cash is available as needed. Due to the cashflow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

Foreign Exchange Risk

The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the Fund's currency exposure is managed in line with the daily cash management policy.

Securities Lending

As at 31 March 2014, £171.4 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender. The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £184.6 million, giving a margin of 7.71%.

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Income from stocklending amounted to £0.6 million during the year and is detailed in note 15 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers;

therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational Risk

The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance, ensures that reputational risk is kept to a minimum.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk, which arises from investments held by the fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk: Sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

| Asset type | Value as at 31 March 2014 £m | % Change | Value on increase £m | Value on decrease £m |
|-------------------------------------|------------------------------------|----------|----------------------------|----------------------------|
| UK equities | 1,004.3 | 16.6% | 1,171.0 | 837.6 |
| Global equities (ex-UK) | 3,625.0 | 19.4% | 4,328.3 | 2,921.8 |
| Property | 927.8 | 14.7% | 1,064.2 | 791.4 |
| Corporate bonds (short-term) | 93.7 | 7.2% | 100.4 | 87.0 |
| Corporate bonds (medium-term)* | 620.4 | 9.6% | 680.0 | 560.8 |
| Corporate bonds (long-term) | 168.6 | 18.0% | 198.9 | 138.3 |
| UK fixed gilts (short-term) | 104.0 | 3.1% | 107.2 | 100.8 |
| UK fixed gilts (medium-term)** | 117.3 | 6.9% | 125.4 | 109.2 |
| UK fixed gilts (long-term) | 45.7 | 12.3% | 51.3 | 40.1 |
| UK index-linked gilts (short-term) | 70.9 | 2.3% | 72.5 | 69.3 |
| UK index-linked gilts (medium-term) | 201.3 | 5.0% | 211.4 | 191.2 |
| UK index-linked gilts (long-term) | 366.8 | 8.5% | 398.0 | 335.6 |
| Commodities | 189.6 | 13.7% | 215.6 | 163.6 |
| Cash | 160.7 | 0.6% | 161.7 | 159.7 |
| Private equity | 1,240.5 | 28.4% | 1,592.8 | 888.2 |
| Infrastructure | 293.4 | 15.9% | 340.1 | 246.7 |
| High-yield debt*** | 214.5 | 13.2% | 242.8 | 186.2 |
| Absolute return/diversified growth | 642.5 | 11.8% | 718.3 | 566.7 |
| Total asset | 10,087.0 | | 11,779.8 | 8,394.2 |

*includes exposure emerging market debt (£263.7 million), loans (£90.0 million) and the Newton Dynamic Bond Fund (£48.1 million)

**includes exposure to overseas bonds (£74.5 million)

***includes mezzanine debt and convertibles

Notes to the Accounts

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The following tables summarise the Fund's currency exposure as at 31 March 2014:

| Asset type | Value as at 31 March 2014 £ | % Change | Value on Increase £ | Value on decrease £ |
|-------------------|-----------------------------------|--------------|---------------------------|---------------------------|
| Overseas equities | 3,625.0 | 13.0% | 4,096.3 | 3,153.8 |
| Private equity | 1,055.7 | 13.0% | 1,192.9 | 918.5 |
| Fixed interest | 263.7 | 13.0% | 298.0 | 229.4 |
| Alternatives | 574.5 | 13.0% | 649.2 | 499.8 |
| Property | 217.8 | 13.0% | 246.1 | 189.5 |
| Liquid assets | 42.2 | 13.0% | 47.7 | 36.7 |
| Total | 5,778.9 | 13.0% | 6,530.2 | 5,027.6 |

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest Rate Risk - Sensitivity Analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The fund's consulting actuary has advised that the assumed interest rate volatility is 100 basis points per annum.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS change in interest rates:

| 31 March 2013 £m | | 31 March 2014 £m |
|---------------------|---------------------------|---------------------|
| 239.3 | Cash & cash equivalents | 211.6 |
| 84.7 | Cash balances | 52.1 |
| 1,034.3 | Fixed interest securities | 906.0 |
| 1,358.3 | Total | 1,169.7 |

| Asset Type | Carrying amount as at 31 March 2014 £m | Change in year in the net assets available to pay benefits | |
|---|---|--|---------------|
| | | +100BPS £m | -100BPS £m |
| Cash & cash equivalents | 211.6 | 2.1 | (2.1) |
| Cash balances | 52.1 | 0.5 | (0.5) |
| Fixed interest securities | 906.0 | 9.1 | (9.1) |
| Total change in assets available | 1,169.7 | 11.7 | (11.7) |

24. Impairment for Bad and Doubtful Debts

The following additions and write-offs of pension payments were reported in this financial year, in line with the Fund's policy:

| Additions analysis* | Number | Total £ |
|---------------------|-----------|---------------|
| Less than £50 | 10 | 183.50 |
| £50 - £100 | 1 | 69.30 |
| £100 - £500 | 1 | 128.94 |
| Over £500 | 0 | 0.00 |
| Total | 12 | 381.74 |

*Additions analysis refers to income collected after it has been written off.

| Write-off analysis | Number | Total £ |
|--------------------|-----------|------------------|
| Less than £50 | 7 | 165.58 |
| £50 - £100 | 28 | 2,061.82 |
| £100 - £500 | 47 | 11,164.70 |
| Over £500 | 12 | 16,704.97 |
| Total | 94 | 30,097.07 |

25. Related Parties

The pensions administration function and the in-house management of investments are performed by Wolverhampton City Council, and the costs shown in note 12 on page 51 are recharged to the Fund each year on an estimated basis with an end-of-year adjustment for actual costs shown as receivable or payable in the accounts. This is a related-party transaction as Wolverhampton City Council is also a member body of the Fund.

Key management personnel who are employees of the administering authority and members of the Fund are disclosed in the administering authority's statement of accounts along with details of remuneration and pensions contributions.

There is one member of the Pensions Committee who is in receipt of pension benefits from the West Midlands Pension Fund (Councillor Turner). There are six Committee members who are active members of the Fund (Councillors S Eling, M Evans, S Evans, L McGregor, T Singh and V Silvester). Each member of the Pensions Committee is required to declare their interests at each meeting.

Annual Governance Statement 2013/2014

Scope of Responsibility

Wolverhampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This code is incorporated within the Council's Constitution, which is available for review on the Council's website.

The Council is also responsible for the strategic management and administration of the West Midlands Pension Fund with the Council's Chief Executive, Monitoring Officer and Section 151 Officer holding specific responsibilities for supporting the members of the Pensions Committee in their role.

Wolverhampton Homes is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from one-third Council, one-third tenants and one-third independent. There is a management agreement between the Council and Wolverhampton Homes which sets out the contractual and governance arrangements between the parties.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of risk management and internal control are based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the annual report and statement of accounts.

Annual Governance Statement 2013/2014

The Governance Framework and Review of Effectiveness Throughout 2013/14

The Council has the following Corporate Plan aims and themes: Encouraging Enterprise and Business, Empowering People and Communities, Re-Invigorating the City and Confident, Capable Council, which are underpinned by the governance environment. This environment is consistent with the six core principles of the CIPFA/ SOLACE framework.

The key elements of the systems and processes that comprise the Council's governance framework, and where assurance against these is required, are described below.

| Core principles of the CIPFA/SOLACE framework | Assurance required | Governance framework providing assurance | Review of effectiveness | Issues identified |
|--|--|--|--|---|
| <p>Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.</p> <p>Members and officers working together to achieve a common purpose with clearly defined functions and roles.</p> <p>Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.</p> <p>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.</p> <p>Developing the capacity and capability of members and officers to be effective.</p> <p>Engaging with local people and other stakeholders to ensure robust public accountability.</p> | <ul style="list-style-type: none"> ● Delivery and communication of an agreed corporate plan ● Quality services are delivered efficiently and effectively ● Clearly defined roles and functions ● Management of risk ● Effectiveness of internal controls ● Compliance with laws, regulation, internal policies and procedures ● Value for money and efficient management of resources ● High standards of conduct and behaviour ● Public accountability ● Published information is accurate and reliable ● Implementation of previous governance issues | <ul style="list-style-type: none"> ● The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) ● Council, Cabinet and Committees ● Scrutiny function ● Audit Committee (and Sub-Committee) ● Standards Committee ● Internal and External Audit ● Strategic Executive Board ● Corporate Development Board ● Directors Assurance Statements ● Corporate and Business Plans ● Medium-Term Financial Strategy ● Corporate Risk Register ● Codes of Conduct ● Business Planning and Performance Management Framework ● Whistleblowing and other anti-fraud related policies ● Complaints System ● Financial Procedures Rules ● Contracts Procedure Rules ● Committee Management Information Systems (now modern.gov) | <ul style="list-style-type: none"> ● Statement of Accounts 2013/14 ● External Audit Report to Those Charged with Governance (ISA 260) Report 2013/14 ● Annual Internal Audit Report 2013/14 ● Annual Audit Committee Report 2013/14 ● Local Government Ombudsman Report 2013/14 ● Scrutiny reviews ● Annual Governance Statement – follow up of 2012/13 issues ● Director of Public Health Annual Report 2013/14 | <ul style="list-style-type: none"> Corporate Landlord/ FutureSpace Savings Targets PSN Compliance Contract Management and Monitoring Procurement Health and Social Care Reforms FutureWorks Partnership Governance Information Governance Strategic Asset Management Schools Improvement |

Annual Governance Statement 2013/2014

West Midlands Pension Fund

The West Midlands Pension Fund have completed their own 'Assurance Framework – Supporting the Annual Governance Statement' which identified that there had been no adverse matters arising from the work behind their assurance framework.

Wolverhampton Homes

Wolverhampton Homes have included a *Statement of Corporate Governance* within the company's financial statements for 2013/14. This states that the control framework has been reviewed by the Company's Audit Committee on behalf of the Board of Wolverhampton Homes and found to be effective. The review included an assurance statement from the company's internal auditors.

In reviewing the Council's priorities and the implications for its governance arrangements, the Council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

The key changes to the governance framework during the year include:

- The transition of Public Health Services to the Council from 1 April 2013.
- The establishment of the Health and Well-Being Board as a committee of the Council which has responsibility for tackling local health inequalities.
- The implementation of and compliance with the Public Sector Internal Audit Standards from 1 April 2013.
- An updated terms of reference for the Audit Committee

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the members and senior officers within the Council who have responsibility for the development and maintenance of the governance framework, Internal Audit's annual report, the Scrutiny function and also by reports made by the Council's external auditors and other review agencies and inspectorates, as noted above.

Internal Audit has concluded that based on the work undertaken during the year of areas key risk, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes. Key areas of concern have been included within the governance issues noted below.

There is a requirement to report in this Statement that the authority is not fully compliant with CIPFA's Statement on the Role of the Section 151 Officer in Local Government (2009) as the Section 151 Officer post is not at the same level in the Authority as members of the Corporate Management Team (known as the Strategic Executive Board) and they do not report directly to the Chief Executive. However, alternative arrangements are in place whereby the Section 151 Officer attends meetings of the Corporate Management Team and has direct access to the Chief Executive when required.

A number of issues were identified in the 2012/13 Annual Governance Statement and an update of the progress made in implementing the actions to improve these areas is included below. Where sufficient progress has not been made, the issues have been included in the 2014/15 issues.

| 2012/13 - Key areas for improvement | Update on position and implication for the 2013/14 Annual Governance Statement |
|---|---|
| <p>FutureSpaces: Corporate Landlord</p> <p>The management of and responsibility for the Council's property assets is currently split between two directorates. Several initiatives and proposals for maintenance programmes and better targeted use of properties have been put forward. It is necessary that clarity of ownership and control of decision making is determined to ensure effective progress is made. Also work is ongoing to improve the co-ordination of responsibilities as the Council develops the role of a 'Corporate Landlord' between the Directorates, along with the continued development of a 'One Council' approach to the use of land and assets and the development of options and a strategy to utilise available properties for community use that are not Council-owned property.</p> | <p>The Corporate Landlord</p> <p>The necessary planning for the introduction of the Corporate Landlord was completed to the set deadlines with the Corporate Landlord subsequently having been implemented incrementally. The key outputs being as follows:</p> <ul style="list-style-type: none"> • The approved governance arrangements are now fully operational with the Strategic and Operational Land and Property Boards meeting regularly with integrated work programmes, with shared programme management resources. • The Strategic Asset Review is scheduled for completion in June 2014 as planned. • There has been a lifting and shifting of property related service functions from the Community Directorate and the Education and Enterprise Directorate to create the Corporate Landlord in the Delivery Directorate. This is being followed by a budget centralisation and review exercise and process redesign. <p>FutureSpaces</p> <p>A delivery plan is being developed based on the Council supported by technical advisors developing the detailed design for the refurbishment of the Civic Centre for the open tendering of the refurbishment works through an OJEU notice. This is essential to ensure a robust final business case for the Cabinet to approve to give a final approval to the programme.</p> <p>Carried forward to 2013/14</p> |

Annual Governance Statement 2013/2014

2012/13 - Key areas for improvement

Information Governance

Following critical in-year reviews by the Information Commissioners Office in August and December 2012, the Council is putting in place a robust framework and effective working practices, including:

- An established and operational Information Governance Board
- Mapped out work programme and resources
- A new information governance structure
- Information governance policies have been approved
- Training programmes are underway

Update on position and implication for the 2013/14 Annual Governance Statement

The Information Governance Board continues to meet, and is now supported by an operational group to progress key issues in relation to information governance.

The Council has now centralised all information governance resource into one team which has enabled the development of a single work programme, against which significant progress is being made. The work plan and maturity model were endorsed by the Cabinet in March 2014, and progress has also been scrutinised by the Council's Scrutiny Board.

The mandatory training module has been rolled out primarily by e-learning but supported by a number of training sessions for employees, and 100% compliance has been completed.

The council is both PSN and Public Health Information Governance Toolkit compliant, and is on track to submit the Social Care Toolkit.

Carried forward to 2013/14

2012/13 - Key areas for improvement

Partnership Governance

Partnerships are increasingly common and increasingly important to the Council, in order to deliver the Corporate Plan and respond to the localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the 'third sector'. Although each of these partnerships is formed to generate beneficial outcomes they also carry different types of risks and governance can be problematic.

In addition, some of the Council's partnerships have been in place for a number of years and the 'health' and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities. Therefore, the Council is to adopt a revised systematic and consistent approach to identifying its significant partnerships. Once the significant partnerships have been identified, a systematic review of the governance arrangements and the 'health' of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and councillors with portfolio responsibilities.

Update on position and implication for the 2013/14 Annual Governance Statement

Work has begun on a number of the Council's partnerships including:

Black Country Working

A Black Country Joint Committee and Advisory Board has been established by Wolverhampton City Council and the three neighbouring local authorities and the Black Country LEP. This will provide strong joint governance for the Black Country City Deal and Black Country Growth Deal. A framework of how this inter-relates with the Council governance has been produced and considered by the Strategic Executive Board.

City Partnerships

The Local Strategic Partnership has been replaced by a City Board that will drive forward the City Strategy (the Sustainable Communities strategy for the city). The representatives on the City Board are the Leader and the Chief Executive. The Board is in shadow form, until September 2014. The governance framework will also continue to be checked and rolled out across the key partnerships.

Carried forward to 2013/14

2012/13 - Key areas for improvement

Contract Management and Monitoring

The Council has historically had an inconsistent approach to its contract monitoring. New processes are being put in place to ensure that contracts can be monitored and reviewed on an ongoing basis for value for money in the future.

Update on position and implication for the 2013/14 Annual Governance Statement

A draft guidance document for contract management is in the early stages of discussion and it will be necessary to develop this approach widely across the Council, and agree how it can be applied. A simple set of procedures to support the approach will be added to contract procedure rules. It will then be necessary to identify contract managers and provide training. Timing for these activities is currently being worked up.

Carried forward to 2013/14

Annual Governance Statement 2013/2014

2012/13 - Key areas for improvement

Procurement

The Interim Head of Procurement had raised concerns over past tendering processes and the failure to follow the Council's Contract Procedure Rules. Following an independent review, these concerns were supported by the findings of Internal Audit who identified a number of cases of inconsistencies and ambiguities at various stages of the procurement processes. The recommendations arising from the audit review were agreed and a range of improved working practices are being put in place.

Update on position and implication for the 2013/14 Annual Governance Statement

The adoption of the Due North e-tendering system and the Agresso ordering system has provided much improved controls and management information and the continued refinement and use of these systems enhances accountability and compliance across the Council. The Procurement Board have agreed to consider amendments to the contract procedure rules to simplify and rationalise the working practices in procurement. Once the Board has considered the revisions and agreed any changes to be made within the constitution, a structured training programme can be developed.

Carried forward to 2013/14

2012/13 - Key areas for improvement

Savings Targets

While the Council's current and historical savings targets have been largely delivered, there are still a limited number of such targets that have not yet been and also some, where proposals are yet to be developed. A failure to meet these targets will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and councillor level.

Update on position and implication for the 2013/14 Annual Governance Statement

All savings were fully reviewed and re-evaluated as part of the 2014/15 budget setting process that was completed in March 2014. This process identified that a number of savings that were reflected in the 2013/14 budget were to be achieved in an alternative way and not as originally planned. These changes have been reflected in the rebased 2014/15 budget and the original savings removed. In addition, no significant adverse overall impact arose during 2013/14 as a result of the savings targets that were included in the budget.

2012/13 - Key areas for improvement

Resilience Function (Emergency Planning and Business Continuity)

The Council has identified issues in its ability to respond fully to its responsibilities under the Civil Contingencies Act. The Cabinet has approved the creation of a new Resilience Team in 2013/14 to bring together the separate Emergency Planning and Business Continuity functions. This is to underpin the delivery of the new *Major Incident Plan* and suite of subsidiary plans. The Resilience Team will operate within new governance arrangements and report to a Board. The Board will oversee the delivery of the adopted project plan for Resilience that will be reviewed monthly by the Strategic Executive Board. Annual audits will also be conducted to validate progress against the project plan.

Update on position and implication for the 2013/14 Annual Governance Statement

The Resilience Board is now fully operational against the approved governance arrangements. The Board has developed a work programme for 2014/15 that integrates Council and Public Health roles and responsibilities. Good progress is being made against this work programme.

2012/13 - Key areas for improvement

Equalities

The Council has identified issues in its ability to respond fully to its responsibilities in respect of equalities and consultation. An Equalities Project Board has been formed and approved an equalities work programme. This programme identifies ways of mainstreaming and promoting best equalities practice. Appropriate measures will be implemented during 2013/14.

Update on position and implication for the 2013/14 Annual Governance Statement

To further support the roll out of the equalities training a number of employee briefing sessions have been delivered. The Equalities Member Champion continues to chair quarterly the Equalities Advisory Group. An internal officer equalities steering group has also been instigated and meets at least quarterly. Finally, a cumulative equality analysis of the budget was conducted, and lessons learnt from the process have been captured in order to continue to improve the equality analysis toolkit.

Annual Governance Statement 2013/2014

Action Plan for the Significant Governance Issues Identified During 2013/14 Which Will Need Addressing in 2014/15

Based on the Council's established risk management approach, the following issues have been assessed as being 'significant' for the purpose of the 2013/14 annual governance statement. Over the coming year, appropriate actions to address these matters and further enhance governance arrangements will be taken. These actions will address the need for improvements that were identified in the review of effectiveness, and their implementation will be monitored as part of the next annual review and risk management arrangements in place.

2013/14 - Key improvement areas and actions for implementation

FutureSpaces

Delivery arrangements are being developed for the refurbishment of the Civic Centre. The intention is that construction works will begin in early 2015 subject to the final business case evidencing an ongoing annual revenue saving of £500,000.

Corporate Landlord

The adoption of the Corporate Landlord Model is being progressed incrementally against the *Strategic Asset Management Review*. The adopted work programme for the implementation was approved by both the Strategic Land and Property Board and the Operational Land and Property Board and is now being actively monitored by both Boards. The key deliverables in the programme include:

- Centralisation of property-related budgets.
- Creation and delivery of a funded programme of annual condition surveys and statutory testing.
- Creation and delivery of more robust cyclical maintenance programme based on the annual condition surveys.
- Development and delivery of a more robust Disposal Programme to achieve the capital receipts from disposals in the MTFs.
- Agreement of service profiles by building profile for services for Facilities Management to deliver to their clients.
- Development and delivery of the annual renewables programme.
- Support to service reviews being conducted with Directorates in respect to providing options appraisals in respect to meeting the property needs for new service operating models.
- Development of a revised *Corporate Asset Management Plan*.

Responsibility and expected implementation date

Assistant Director, Delivery
February 2015

2013/14 - Key improvement areas and actions for implementation

Savings Targets

Whilst the Council's current and historical savings targets have been largely delivered, the extremely challenging financial environment continues to require substantial year on year savings. The failure to deliver already identified savings and develop further savings will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and councillor level.

Responsibility and expected implementation date

Assistant Director, Finance
March 2015

2013/14 - Key improvement areas and actions for implementation

PSN Compliance

Prior to 2013 Wolverhampton City Council obtained GCSx accreditation enabling secure access to and exchange of information with central government and government agencies. The introduction of the Public Services Network (PSN) during 2013 demanded improved technical security standards and more robust information governance requirements. Wolverhampton City Council's compliance with the PSN Code of Connection requirements was approved by the Cabinet Office on 19 November 2013 following an independent health check of the Council's ICT estate, looking for vulnerabilities from external sources of attack and from within the Council followed by a comprehensive evaluation of the Council's network and security architecture, ICT operational practices and information governance policies by CLAS consultants at the Cabinet Office. PSN compliance remains at the heart of all ICT decisions regarding the introduction of new services. A continual programme of infrastructure upgrades and refresh ensures compliance is maintained, with the Council undertaking the annual accreditation process during May and June 2014.

Responsibility and expected implementation date

Head of Service, ICT
March 2015

| 2013/14 - Key improvement areas and actions for implementation | Responsibility and expected implementation date |
|---|---|
| <p>Contract Management and Monitoring</p> <p>Having identified the range of contracts that are in place the main task is to establish how the reporting process is being managed and whether the contracts are meeting their original expectations. With the wide variety of contracts it will be necessary to develop several different approaches to contract management however the main principles will be early involvement for the contract managers (at tender stage), regular reporting on performance, planned reviews to assess the options available and general awareness training for nominated contract managers.</p> | Strategic Director, Delivery Assistant Director, Finance March 2015 |
| <p>2013/14 - Key improvement areas and actions for implementation</p> <p>Procurement</p> <p>The Procurement Board will be instrumental in guiding the development of strategic procurement. The introduction and utilisation of e-procurement systems (Agresso and Due North) will increase the overall visibility of spend and the profile of this spend can be matched to the contract register. The improved management information will be useful to target particular categories of expenditure and develop procurement strategies that will extract value for money. The use of market sounding, options appraisals and output-based specifications will also contribute to improving budgetary controls and increasing the percentage of on contract spend. We will be using collaborative arrangements, where these are beneficial to the Council, and selecting the appropriate frameworks will be carried out in conjunction with the operational experts. The use of standardised forms and procedures will also aid compliance.</p> | Strategic Director, Delivery Assistant Director, Finance March 2015 |
| <p>2013/14 - Key improvement areas and actions for implementation</p> <p>Health and Social Care Reforms</p> <p>Over the next few years, adult social care is required to take a lead role in implementing a service delivery transformation to effectively respond to a number of challenges and opportunities which arise due to significant budget reductions and changes to local and national policy. To be delivered successfully, the service transformation involves putting agreed strategies and plans in place. One of the strategies to be implemented is the Better Care Fund which is an integrated pooled budget to support health and social care to work together in local areas. To achieve the outcomes of the Fund will require strong partnership working. Significant planning and investment of resources will also be required to set up primary care, prevention and community services in order to achieve the fund outcomes. Another strategy the Council will be required to implement will be the Care and Support Bill in April 2015. Mapping, analysis and assessment of the detailed requirements of the Bill to identify the resources required to implement the changes, needs to be undertaken to fully assess the impact of the Bill on the Council. The Health and Wellbeing Board will be accountable for the authorisation and delivery of the Fund. The terms of reference and governance of the Health and Wellbeing Board are being reviewed to take account of these new responsibilities'.</p> | Assistant Director, Health, Wellbeing and Disability March 2015 |
| <p>2013/14 - Key improvement areas and actions for implementation</p> <p>FutureWorks</p> <p>The FutureWorks Programme delivered the new Agresso IT system on 1 April 2014 in line with the contractual timescales. This new system and processes are being used across the Council and its partner organisations of Wolverhampton Homes and West Midlands Pension Fund. This successful delivery has enabled the council to start delivering the agreed year-one savings. The Council is now embarking on delivering phase 2 of the programme in rolling out self-service functionality which will maximise the return on investment as Council services are transformed. The Council will continue to manage the risks around the general governance and structure of this programme and through the general programme controls it will bring.</p> | Strategic Director, Delivery Assistant Director, Finance March 2015 |
| <p>2013/14 - Key improvement areas and actions for implementation</p> <p>Partnership Governance</p> <p>While work has begun on a number of the Council's key partnerships, a systematic approach to identifying all of the significant partnerships and in determining the level of review of the governance arrangements alongside the 'health' of each partnership, is still being rolled out and will be quite a sizeable task.</p> | Assistant Director, Partnerships, Economy and Culture supported by the Chief Legal Officer March 2015 |

| 2013/14 - Key improvement areas and actions for implementation | Responsibility and expected implementation date |
|---|---|
| <p>Information Governance</p> <p>The Council is building on the robust framework and effective working practices it has put in place since consensual audits from the Information Commissioner's Office in 2012 and an enforcement notice in 2014, including:</p> <ul style="list-style-type: none"> Supporting the Information Governance Board through the development of an operational group to drive progress Mapped out a centralised work programme and resources including a new structure Review of all information governance policies Roll out of a suite of training programmes, including ensuring there is 100% compliance with the mandatory 'Protecting Information' training to all employees. | <p>Head of Policy March 2015</p> |
| <p>2013/14 - Key improvement areas and actions for implementation</p> <p>Strategic Asset Management</p> <p>The Corporate Landlord model has now been formally adopted by the Council. The implementation of the model and developing a clear understanding of the accountability for activities and financial management will continue. As part of the Corporate Landlord approach, Strategic and Operational Land and Property management is now covered by two governance Boards. The Strategic Land and Property Board is chaired by the Strategic Director Education and Enterprise, and attended by the Corporate Landlord (Strategic Director Delivery). The Operational Land and Property Board is chaired by the Strategic Director Delivery. The Strategic Land and Property Board meets monthly and the Operational Land and Property Board meets fortnightly. Both Boards consider land and property matters and consult members through the existing processes of Cabinet Member Briefing; Property Advisory Group and Executive Team prior to decisions being formally made in line with the Council's Constitution. The Strategic Asset Review has now concluded with the agreed categorisation of assets, and clear accountability established for assets including those considered to be of strategic importance (for Economic Growth and Regeneration including Housing). Strategic Asset Management will in the future be supported by the Corporate Landlord's Asset Management team acting as a single source of information and knowledge for the Council's assets making sure that the respective governance boards are provided with accurate and relevant information enabling informed decision making and direction.</p> | <p>Strategic Director, Education and Enterprise and Assistant Director, Delivery March 2015</p> |
| <p>2013/14 - Key improvement areas and actions for implementation</p> <p>Schools Improvement</p> <p>The Council's vision is to create an education system in Wolverhampton that promotes higher standards for all children and young people and closes the attainment gap. This is a system where the Council celebrates school autonomy and supports school leaders and teachers in leading school improvement and having the highest expectations of every child and young person. The Council's strategic approach to school improvement therefore is to support effective school to school collaboration, strong partnerships and to develop excellent practice in schools whilst demonstrating clear leadership and challenge in the delivery of its duties in relation to school improvement. This leads to three clear and related targets:</p> <ul style="list-style-type: none"> To ensure that every child in the city has an excellent education. To raise standards in schools and academies so that by September 2016 attainment and progress measures at all key stages match or exceed national averages. To improve the quality of provision in schools and academies so that by September 2016 all schools, settings and academies achieve an Ofsted inspection judgement of good or outstanding. | <p>Assistant Director, Education and Enterprise March 2015</p> |

Future Assurance: Progress reports on the implementation of the above actions from these key improvement areas will be produced by Audit Services and reported to the Audit Committee during 2014/15.

Certification

To the best of our knowledge, the governance arrangements, as outlined above, have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Roger Lawrence,
Leader of the Council

Date: September 2014

Simon Warren,
Chief Executive

Date: September 2014

Appendices

Policy Documents

Statement of Investment Principles 2014

Socially Responsible Investment Statement 2014

Funding Strategy Statement 2014

Governance Compliance Statement 2013

Communications Policy Statement 2014

Administering Authority Policy Statement 2014

Statement of Investment Principles 2014

1. Introduction

- 1.1** The West Midlands Pension Fund has drawn up this Statement of Investment Principles ('the SIP') to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This statement is available to anyone with an interest in the Fund and the public generally. The Fund has consulted with such persons as it considers appropriate including obtaining advice from its consultants in preparing this statement.
- 1.2** Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The Committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in section 2 on page 71. The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions. The committees meet at least four times a year. A Joint Consultative Panel made up of local trade union members meets three times a year.
- 1.3** The roles of the members and committee are:

Pensions Committee Member Principal Accountabilities

- 1** To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
- 2** To 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.
- 3** To determine and review the provision of resources made available for the discharge of the function of administering authority.

Key duties

a) Pensions Committee

- 1) Monitor compliance with legislation and best practice.
- 2) Determine admission policy and agreements.
- 3) Monitor pension administration arrangements.
- 4) Determine investment policy based upon a medium-term benchmark and quarterly reviews outlining a short-term position.
- 5) Monitor policy.
- 6) Appoint committee advisers.
- 7) Determine detailed management budgets.

b) Investment Advisory Sub-Committee

- 1) Monitor investment management arrangements.
- 2) Review strategic investment opportunities.
- 3) Monitor and review portfolio structures.
- 4) Monitor implementation of investment policy.
- 5) Advise on the establishing of policies in relation to investment management, including the appointment and approval of terms of reference of independent advisers of the Fund.
- 6) Monitor investment activity and performance of the Fund.
- 7) Oversee the administration of investment management functions of the Fund.

The Council delegation to Pensions Committee is as follows:

- a) To exercise the functions of the Council in relation to the administration of the West Midlands Pension Fund arising by virtue of the Local Government Pension Scheme (Administration) Regulations 2008, and any subsequent related legislation.
- b) To exercise all the general powers and duties of the Council granted to Cabinet and Cabinet teams and standing bodies provided that those parts of the *Council's Financial Procedure Rules and Contracts Procedure Rules* which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.
- c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.
- d) To ensure that consideration is given to the impact which the Committee's policies and provision of services have with regard to environmental matters.

The key delegation to the Investment Advisory Sub-Committee is as follows:

- a) To advise on the establishing of policies in relation to investment management including the appointment and approval of terms of reference of independent advisers to the Fund.
- b) To monitor investment activity and the performance of the Fund.
- c) To oversee the investment management functions of the Fund.

The Director of Pensions oversees the implementation of Committee policy and the management of the day-to-day functions that support its implementation.

Statement of Investment Principles 2014

1.4 This SIP has been prepared taking into account the most recent actuarial valuation and the *Funding Strategy Statement (FSS)*. The SIP is updated as part of any significant changes on an ongoing basis, for example, appointment of new managers, or new major investment areas or benchmark changes.

1.5 Related Fund policies and statements are:

- Funding Strategy Statement
- Statement of Investment Principles
- Socially Responsible Investment Statement
- Compliance with Myners
- Compliance with the UK Stewardship Code
- Governance Compliance Statement

2. Investment Objectives and Risk

2.1 Objectives

- i) Seek returns that are consistent and match those available in the major investment markets and are comparable with other institutional investors.
- ii) Emphasise markets that over time are likely to give better returns.
- iii) Acknowledge the risk of investing and have regard to best practice in managing that risk.
- iv) Have resources available to meet the Fund's liabilities for pensions and other benefits provided when they fall due.
- v) Identify innovative return enhancing investment opportunities.

2.2 Risk

i) The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

ii) Funding Risks

- a) The risk of a deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark reflecting optimum correlation between asset classes and diversification. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.
- b) The risk of changing demographics as longevity and other demographic factors improve, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c) Systemic risk as the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund seeks to mitigate systemic risk through a diversified portfolio with a split between active management (alpha) and market returns (beta). Within the allocation to alpha there is a diverse range of specialist managers with varying targets of risk and return. In addition, the alpha budget is designed to enhance returns from identifying market inefficiencies. It is not possible to make specific provision for all possible eventualities that may arise under this heading.

iii) Asset Risks

- a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- c) Currency risk that the currency of the Fund's assets underperforms relative to sterling (ie, the currency of the liabilities).
- d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

The Fund manages asset risk as follows:

- It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines.
- By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- By investing across a range of assets, including quoted equities and bonds, the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities.
- The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, it is comfortable taking this risk.
- In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

Statement of Investment Principles 2014

iv) Operational Risk

- a) Transition risk of incurring unexpected costs in relation to the transition of assets among managers.

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk.

- b) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded. These risks are managed by:

- The use of a global custodian for custody of assets.
- The use of formal contractual arrangements for all investments.
- Maintaining independent investment accounting records.

- c) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- Operation of robust internal compliance arrangements.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

3. Investment Strategy

The Fund sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and its investment objectives. The strategy used to be reviewed at least every three years after each actuarial valuation, and monitored on an ongoing basis to facilitate any necessary changes. The review has moved to an annual basis which may or may not result in a change in benchmark more frequently.

The majority of the Fund's expected returns (6.0%) comes from its market investments and 0.9% from its active budget. Although the Fund only has a combined 33% target allocation to 'alternative' asset classes and private equity, around 50% of the target active returns are expected to be derived from these. These allocations are made in order to better manage and improve the risk return on investments, and have led to a medium-term target of 23% alternatives, 19% fixed-interest and 58% equities (includes a 10% allocation to private equity).

The Fund's investment in alternative asset classes seeks to increase the overall expected returns while reducing the overall level of expected risk due to the effect of diversification. Volatility also forms part of the overall equation, acknowledging there is market risk plus active risk (associated with any active management). The key is to find investments where the extra return more than offsets any increase in volatility.

The strategy has, over recent years, set a trend of further diversifying the Fund's overall risk away from an overdependence on the equity risk premium. As part of this trend, alternative investments have included investments in 'absolute return strategies'.

It also seeks to position the Fund's equity exposure to reflect global GDP, in addition to market capitalisation.

4. Day-to-Day Management of the Assets

4.1 Investment Portfolios

The investment strategy is implemented through the development of investment portfolios within each asset class detailed in the benchmark. The portfolios will be constructed from funds and products that are accepted by the Investment Advisory Sub-Committee and satisfy the relevant investment management regulations and operational due diligence requirements.

The investment opportunities will be accessed through the following range of methods.

A significant amount of investment is carried out by the Fund's own Pension Fund Investment Division (PFID) and is designed to manage approximately 45% of the Fund's investments. The majority of quoted equities are managed in-house, either on a passive or active core basis, the latter having relatively low alpha and volatility targets.

Where the appropriate skills are not available internally, some specialist external funds and managers are used. The managers used are listed at Appendix A on page 75.

The management of private equity and some of the other complementary assets involves selecting specialist funds to construct portfolios. UK direct property is also managed through a specialist manager, alongside close in-house involvement. The Fund takes final decisions on all, except minor, property matters. Index-linked bonds are managed externally on a passive basis; all UK corporate bonds are managed externally, predominantly on an active basis. UK gilts are managed externally within a passive mandate.

On occasions the Fund has used futures for protecting its quoted equity allocation while in the process of implementing its benchmark. The Fund will give serious consideration to any structured product or derivative that is considered to be a 'permitted' investment under LGPS regulations and that is considered to be the most efficient use of the Fund's assets within the risk budget.

4.1.2 Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation. The individual portfolios are expected to match or exceed the specific targets set for each portfolio over time. The investment strategy review 2012 indicated the total return target for the Fund is 6.9%, which is split between the returns expected from core/passive investments (the core return of 6.0%) and those from actively-managed investments (0.9%).

Statement of Investment Principles 2014

4.1.3 Investment Restrictions

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund operates at the limits set by the lower level of control under Regulation 14(2), and within the limits for contributions to partnerships, the upper limit for which was increased to 30% from 1 April 2013. This enables investments in private equity and other assets such as infrastructure and global property.

Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Investment Advisory Sub-Committee.

The valuation of specific investments from those acceptable are made using the Fund's due diligence procedures and in accordance with its *Investment Compliance Manual*.

4.2 Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Equitable Life and the Prudential Assurance Company Limited. Members have the option to invest in with-profits funds, unit-linked funds and deposit funds.

The Fund monitors, from time to time, the suitability and performance of these vehicles. No new business is being placed with Equitable Life.

4.3 Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. There is no current policy on realising investments to meet benefit outgoings etc, as the Fund's cashflow is positive. The majority of the Fund's investments may be realised quickly if required. Property and private equity, which together represent around 19% of total assets, may be difficult to realise quickly in certain circumstances.

4.4 Monitoring the Performance of Fund Investments

The performance of the internally managed assets and of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance.

The Investment Advisory Sub-Committee meets at least quarterly to review markets, asset classes and funds.

Advisers

The Fund uses a range of advisers in addition to its own specialist officers. These are detailed in Appendix C on page 77.

5. Corporate Governance and Socially Responsible Investment (SRI)

5.1 Fund Responsibilities

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate governance practices in the companies in which it invests. The Fund considers that good corporate governance can contribute to business prosperity by encouraging accountability between boards, shareholders and other stakeholders. Good corporate governance also plays a major role in encouraging corporate responsibility to shareholders, employees and wider society.

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards or reasonable expectations set by their peers.

The Fund's approach is part of its overall investment management arrangements and its active governance policy.

In order to fulfil this responsibility, The Fund communicates with companies and exercises the rights (including the voting rights) attaching to investments in support of its corporate governance policies. The Fund's voting rights are an asset and will be used to further the long-term interests of the Fund beneficiaries. As a general principle, votes will be used to protect shareholder rights, to minimise risk to companies from corporate governance failure, to enhance long-term value and to encourage corporate social responsibility. It is the Fund's policy to vote against a company's report and accounts where there is insufficient disclosure on environmental, employee and community policy. A copy of the Fund's corporate governance policy and a summary of its voting actions can be found on the website at wmpfonline.com.

Socially responsible investment is taken as giving consideration to issues that give risk to social concerns – for example, employment practices, human rights, use of natural resources, environmental issues and external business standards. This links to, and covers, the issues around sustainability, that have a rapidly growing significance for companies from a legislative, reputational and practical operational standpoint.

The Fund's policy statement on SRI and its position relating to the UK Stewardship Code can be found in a separate statement on the website.

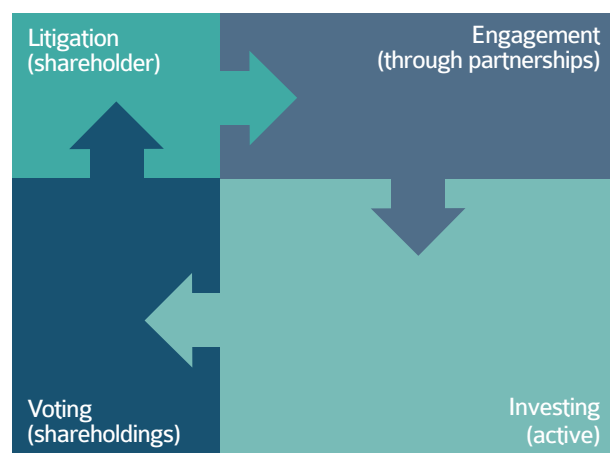
Lack of good governance interferes with a company's ability to function effectively and is a threat to the Fund's financial interest in that company.

Statement of Investment Principles 2014

5.2 Approach to SRI

The Fund's approach to corporate governance and SRI divides into four areas of activity.

ESG Best Practice



a) Voting Globally

The first approach, voting, is certainly not a 'box-ticking' exercise, as the Fund regularly votes against resolutions.

The Fund, through a proactive voting policy, in partnership with PIRC, votes its share rights constructively based upon a comprehensive analysis of company voting issues.

The Fund's voting policy and activity is detailed in its annual report and accounts and on the Fund's website, where it is reported on a quarterly basis.

b) Engagement Through Partnerships

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns. It does this through:

- LAPFF.
- Voting on shareholder resolutions.
- Joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

The Fund continues to actively develop corporate governance partnerships as it believes this will maximise the influence of shareholders, will lead to best practice and will promote high standards on a global basis. Current partners include the Institutional Investors Group on Climate Change.

c) Shareholder Litigation

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund, in partnership with a US law firm and other shareholders, submits class actions globally where possible and where appropriate.

d) Active Investing

The fourth and most challenging activity for the Fund in this particular field is actively seeking SRI investments for a proportion of Fund assets, provided these meet the Fund's requirements of strong returns combined with best practice in SRI and/or corporate governance.

Such investments include alternative energy, clean energy, urban regeneration and activists' funds.

5.3 Environmental Concerns

The corporate performance of companies and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Fund will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.

The Fund expects companies to:

- Make a commitment to achieving environmental excellence.
- Institute regular monitoring of their environmental impacts.
- Establish procedures which will lead to incremental improvements in environmental performance.
- Comply with all current environmental and other relevant legislation and to seek to anticipate future legislative changes.
- Make available to shareholders regular and detailed reports of progress made towards attaining improved environmental standards.
- Seek to take all reasonable and practical steps to minimise or eliminate environmental damage.
- Actively and openly engage in discussion on the environmental ethical effects of their business.
- Take environmental matters seriously and produce an environmental policy which is effectively monitored.

6. Compliance with this Statement

The Fund will monitor compliance with this statement. In particular, it will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

7. Compliance with Myners

Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

Statement of Investment Principles 2014

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Full details of compliance are set out in the Fund's *Compliance with Myners' Statement* which can be found on the Fund's website at wmpfonline.com.

8. Review of this Statement

The Fund will review this statement in response to any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. This review will occur no less frequently than every three years to coincide with the actuarial valuation.

9. Stocklending

The Fund undertakes stocklending for its quoted equity holdings and is considering it for other asset classes, as permitted by the LGPS (Management and Investment of Funds) Regulations 2009 and operates within the limits set by the regulations.

The lending of equities, held in segregated mandates, is through the Fund's custodian with a formal agreement in place and approved collateral to protect the Fund's interests. Regular reviews of the lending programme take place with the custodian. Stocklending may also take place in pooled vehicles held by the Fund.

Appendix A - Portfolio Structure July 2014

The structure summary is as follows:

Equities

| | |
|------------------|---|
| UK | PFID |
| North America | PFID; Intech |
| Europe | PFID: BlackRock |
| Far East | PFID plus specialist funds |
| Global | MFS Investment Management BlackRock PFID through specialist funds |
| Emerging markets | PFID AGF Investments Foreign and Colonial Investments Mondrian Investment Partners |
| Private equity | PFID through specialist funds |

Alternative investments

PFID through a selection of specialist funds

Fixed interest

| | |
|--------------------|--|
| UK gilts | PFID through specialist funds |
| UK index-linked | PFID through specialist funds |
| UK corporate bonds | PFID through specialist funds Royal London Asset Management |
| Cash | PFID |
| Direct property | CBRE |
| Indirect property | PFID through specialist funds |

PFID - Pension Fund Investment Division (Direct)

Statement of Investment Principles 2014

Appendix B - Investment Benchmark

| | Medium-Term Asset Allocation July 2014 | | Medium-Term Strategic Ranges |
|----------------------------|--|------------|------------------------------|
| | % | % | % |
| Quoted equities | | 48 | 40-60 |
| UK | 10.0 | | |
| Europe | 6.0 | | |
| North America | 9.0 | | |
| Japan & Far East | 6.5 | | |
| Emerging markets | 8.5 | | |
| Global equities | 8.0 | | |
| Private equity | 10.0 | | |
| Total equities | | 58 | 50-70 |
| Fixed interest | | 19 | 15-25 |
| UK index-linked | 5.0 | | |
| UK gilts | 4.0 | | |
| Corporate bonds | 5.5 | | |
| Emerging market debt | 3.5 | | |
| Cash | 1.0 | | |
| Alternative | | 23 | 15-25 |
| Direct property | 6.0 | | |
| Indirect property | 3.0 | | |
| Infrastructure | 4.0 | | |
| Absolute return strategies | 10.0 | | |
| Total non-equities | | 42 | 30-50 |
| Total Fund | | 100 | |

- Fund's asset allocation to equity markets reflects global GDP by region, market capitalisation and regional wealth, but with a higher weighting to the UK and emerging markets.
- Fund's overall exposure to UK is of the order of 33%
- Regional overseas equities:
 - 50% US and Europe
 - 50% Asia and emerging markets
- Fixed interest:
 - c50% stabilising
 - c50% return seeking

Note: Medium-term strategies ranges set deliberately wide and only around specific asset classes.

The risks of diverging from the benchmark are monitored and evaluated through a weekly risk/return model, which is also submitted to the quarterly Pensions Committee.

Statement of Investment Principles 2014

Appendix C - Advisers April 2014

Hymans Robertson

Investment policy, general investment matters.

Mercer Human Resource Consulting

Actuarial matters

CBRE

Commercial and industrial property matters, day-to-day management of properties and transactions, involving the sale and purchase of property (excluding agricultural)

John Fender Consultancy

Independent property advice

Knight Frank

Agricultural property management matters

Knight Frank

Independent property valuations

Savills

Independent agricultural property valuations

Entec

Planning matters (agricultural holdings)

Lawrence Gould

Independent agricultural property advice

Deloitte

Investment management practices and regulations

PIRC

Company governance issues

HSBC

Stocklending

Appendix D - List of Suitable Investments

Within the investment management regulations for the LGPS, the following are considered acceptable investments for meeting the Fund's investment strategy.

- Quoted equities
- Private equity
- Contract of insurance (relevant)
- Unlisted securities
- Property
- Cash deposits
- Fixed interest
- Commodities
- Infrastructure
- Derivatives in accordance with the Fund's compliance requirements

Appendix E - List of Acceptable Investment Vehicles

- Direct holdings
- Limited partnerships
- Pooled vehicles
- Structured products (as defined by the LGPS regulations)
- Hedge fund strategies

Socially Responsible Investment Statement 2014

The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active governance policy.

a) Definitions

i) Governance Background

The corporate governance requirements on companies and investors has built over the years based upon a number of reports, codes and legislative requirements. These include the following:

- Companies Act.
- UK listing requirements.
- Model code covering
 - Insider trading
 - Financial services legislation
 - Market abuse issues
- Identified good practice from Cadbury, Greenbury, Hampel reports
- Turnbull report on governance requirements, covering:
 - System of internal control
 - Financial risk
 - Operational risk
 - Reputational risk
 - Compliance
 - Risk management
- Myners' principles.
- Higgs and Smith reports.
- Overriding pensions legislation.
- Combined code covering arrangements for:
 - Board of directors
 - Directors' remuneration
 - Relations with shareholders
 - Accountability and audit
 - Audit committees
- Accounting requirements.
- Stewardship code.
- A robust response to socially responsible and sustainable issues relevant to their sector.

Social responsibility means giving consideration to issues that give rise to social concerns – for example, employment practices, human rights, use of natural resources, environmental issues and external business standards.

This links to and covers the issues around sustainability that have a rapidly growing significance for companies from a legislative, reputation and practical operational standpoint.

ii) Engagement on Company Governance Issues

Responding to socially responsible investment issues is within the Fund's approach to corporate governance. The Myners' principles indicate funds should follow an active shareholder engagement approach which the Fund does using its position to influence the corporate practices of companies in which it invests.

The reasons for shareholder engagement are:

- i) To improve the position of companies by increasing the prospects of them creating wealth for shareholders and interested parties by minimising business risks and maximising business opportunities.
- ii) Address the risks to the funds assets that arise from poor governance.
- iii) Recognised as good practice.
- iii) Expectation of pension funds by many interested parties (directly and indirectly).

Shareholder engagement is achieved by:

- i) Writing to company management.
- ii) Special meetings with companies.
- iii) Questions and discussions with companies at routine meetings and AGMs.
- iv) Joining in or supporting campaigning or pressure groups.
- v) Issuing public statements/briefings.
- vi) Proxy voting.
- vii) Preparing or supporting shareholder resolutions.
- viii) Investing in specified vehicles looking to improve governance standards and sustainability through positive action.

iii) UN Principles of Reasonable Investment (PRI)

The UN in 2006 with the support of major institutional investors launched the UN Principles of Responsible Investment:

a) The Framework of the PRI

The PRI consists of six statements, each of which contains four to eight suggested actions to comply with PRI. The Fund supports this approach. The principles of responsible investment require formal signing to agree the following:

- 1) We will incorporate ESG (environmental, social and governance) issues into investment analysis and decision-making.
- 2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4) We will promote acceptance and implementation of the principles within the investment industry.

Socially Responsible Investment Statement 2014

- 5) We will work together to enhance our effectiveness in implementing the principles.
- 6) We will each report on our activities and progress towards implementing the principles.

There are three types of signatories who may comply with PRI: asset owners, investment managers and professional service partners. Asset owners are long-term investors including pension funds, endowments and government funds.

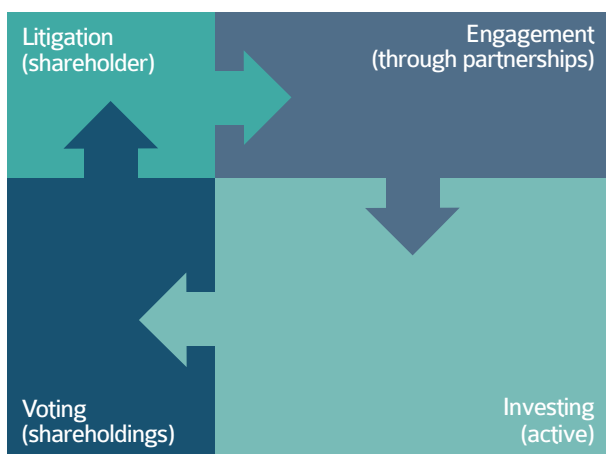
b) PRI vs SRI

While PRI shares some of the same concepts as SRI, such as active ownership and the use of ESG criteria, the two differ in important ways. PRI operates across the totality of investment options and discourages negative screening, whereas SRI is often focussed on a certain strategy and may screen to eliminate potential investments. PRI is also designed to work with the fiduciary requirements of all institutional investors, not just those concerned with SRI. PRI seeks to eventually increase investment returns while lowering risk, which will be accomplished through the signatories' pooling of resources and research to better understand ESG issues while lowering the costs of active ownership. The principles will also allow members to work together to address various problems, such as managing for the short-term and ignoring environmental costs. Resolution of these issues may lead to more stable and profitable market conditions.

b) The Fund's Engagement Process

More than twenty years ago, the Fund's committee identified that a lack of good governance interfered with a company's ability to function effectively and was a threat to the Fund's financial interest in that company. Accordingly, the Committee recognised that it had an obligation to be more proactive and acted by developing a bespoke corporate governance voting policy produced in conjunction with its voting partner, PIRC. Today, the Fund's approach to corporate governance and SRI has further developed and divides into four areas.

ESG Best Practice



i) Voting Globally

The first approach, voting, is certainly not a 'box-ticking' exercise, as the Fund regularly votes against resolutions. The Fund, through a proactive voting policy, votes its shares constructively based upon a comprehensive analysis of company voting issues.

The Fund aims to vote at the majority of company AGMs where it has a direct interest. Where possible and practical, the Fund votes on its overseas holdings.

The Fund's voting policy and activity is summarised in its annual report and accounts and published on the Fund's website, where activity is reported on a quarterly basis following a report to each main Pensions Committee meeting.

ii) Engagement Through Partnerships

The Fund's second approach involves working in partnerships with like-minded bodies.

The Fund recognises that to gain the attention of companies in addressing governance concerns it needs to join with other investors with similar concerns. It does this through:

- a) LAPFF
- b) Voting on shareholder resolutions
- c) Joining appropriate lobbying activities
- d) Funding research into governance issues

In terms of its engagement approach with other investors, it is most significant through LAPFF. It is a founding member of LAPFF, an influential body comprising of over fifty public section pension funds based in the UK with combined assets of more than £125bn. LAPFF exists to promote the investment interests of local authority pension funds and believes that standing as a single group maximises their influence as shareholders, promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

The work of LAPFF is detailed on its website: www.lapffforum.org

iii) Shareholder Litigation

A third approach adopted by the Fund in order to encourage corporate management to behave responsibly and honestly is through shareholder litigation. The Fund, in partnership with a US law firm and other shareholders, submits class actions where possible and where appropriate.

iv) Active Investing

The fourth and most challenging activity for the Fund in this particular field is actively seeking SRI investments, provided these meet the Fund's requirements on fundamental investment grounds. Commitments have been made to investments that target strong returns in combination with best practice in SRI. Examples can be found across the Fund's portfolios. In the private equity portfolio, there are the Bridges Community Development Venture funds and a late stage private equity fund focussing on the clean technology sector. The property portfolio has made a commitment to the Igloo Urban Regeneration Fund, which only develops brownfield sites across the UK, combining sustainability and environmental considerations alongside above average property returns.

Socially Responsible Investment Statement 2014

The Fund considers that such investments should form part of the mainstream asset classes and not be viewed as separate, as ideally, going forward SRI and corporate governance should form an integral part of the investment process meeting the Fund's main objective of investing in assets that generate consistent and strong returns.

c) Environmental Considerations

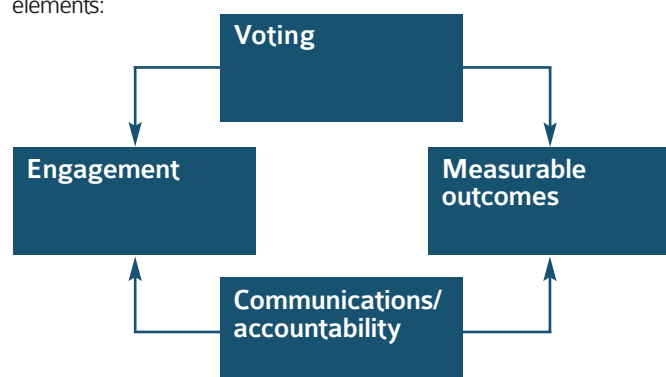
Environmental issues continue to grow in importance for the corporate performance of companies, and their value as investments are increasingly affected by environmental factors. In pursuance of a prudent and environmentally responsible response by companies, the Fund will encourage and support companies that demonstrate a positive response to SRI and environmental concerns.

The Fund expects companies to:

- Make a commitment to achieving environmental excellence.
- Institute regular monitoring of their environmental impacts.
- Establish procedures which will lead to incremental improvements in environmental performance.
- Comply with all current environmental and other relevant legislation and to seek to anticipate future legislative changes.
- Make available to shareholders regular and detailed reports of progress made towards attaining improved environmental standards.
- Seek to take all reasonable and practical steps to minimise or eliminate environmental damage.
- Actively and openly engage in discussion on the environmental ethical effects of their business.
- Take environmental matters seriously and produce an environmental

d) Measuring the Fund's Governance Activity in its Investments

In responding to the responsibilities of seeking good governance of its individual holdings, the Fund has identified four key measurable elements:



In analysing the Fund's action in these four areas, it has identified the following as measures it is to achieve to demonstrate good governance of the assets it holds in a meaningful and measurable format.

i) Voting at company AGMs and EGMs

- Voting policy in place
- Detailed specific voting template applied
- Votes cast in UK
- Votes cast in US
- Votes cast in Europe
- Votes cast in other countries
- Regular reports to members
- Information available to interested parties
- Clear accountability between shares held and votes cast
- Costs of voting known

ii) Measurable outcomes

- Percentage of votes cast
- Example of changed company behaviour linked to Fund's voting actions

iii) Engagement

- Direct meetings with companies
- Direct sponsorship of governance research
- Joint engagement with others
- Meet Myners' requirements

iv) Communication/Accountability

- Annual report details governance activity
- Information on website on governance
- Information on website on votes cast

Details of the outcomes can be found on the following websites:

- Local Authority Pension Fund Forum (LAPFF) www.lapffforum.org
- West Midlands Pension Fund wmpfonline.com

The Fund's priorities are moving to being set by its approach to risk management – improving the governance of its individual holdings thereby reducing the risk of company failure and loss of value.

Socially Responsible Investment Statement 2014

The Fund takes the opportunity to vote at AGMs and EGMs largely to express its support for the company management, but also to express concern about company governance issues where appropriate.

The concerns are identified by reference to:

- i) The Fund's voting policy statement.
- ii) Governance issues that may arise during the year that impact on a company's management and could impact on shareholder values.

The Fund is working to identify governance issues in its underlying investment holding companies which could damage its long-term financial interests. The risk analysis is based upon the following potential adverse impacts on a company's:

- i) Reputation.
- ii) Falling short of its peers on social, environmental or ethical trends.
- iii) Slow in responding to social changes and trends.
- iv) Falling short of its peers on meeting reporting standards.
- v) Comparatively weak board structure in terms of make-up, expertise, independence.

By identifying these governance risks in companies, the Fund aims, through its engagement strategy, to improve the governance weaknesses and protect its long-term value as shareholders.

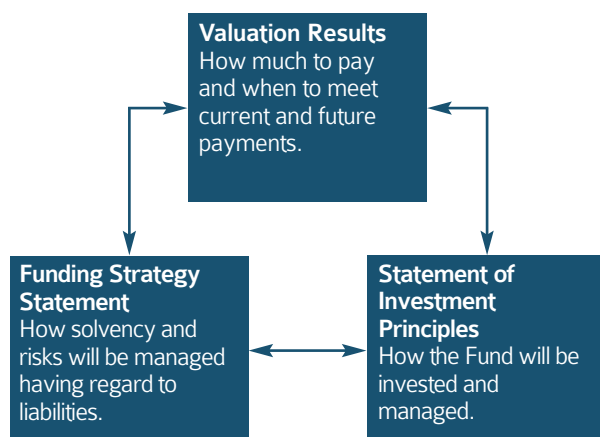
Funding Strategy Statement 2014

1. Introduction

1.1 The LGPS Regulations require funds to produce a *Funding Strategy Statement (FSS)* having regard to the guidance produced by CIPFA. This statement has been drawn up by the West Midlands Pension Fund in accordance with the regulations and following consultation.

1.2 The FSS complements and adds to the *Statement of Investment Principles (SIP)*.

1.3 The statements relate as follows:



1.4 The Fund's actuary takes account of the FSS in his actuarial work for the Fund, most notably, the actuarial valuation process.

1.5 The FSS reflects the statutory nature of the Local Government Pension Scheme (LGPS), particularly the defined benefit nature and the benefit payable guarantee. The FSS sets out how benefits will be funded over the long term through an accountable, transparent process with full disclosure of relevant details and assumptions.

1.6 The LGPS is currently a long-established, well-managed, funded final salary scheme. With effect from 1 April 2014, the LGPS will become a career-average revalued earnings scheme (CARE) and this has been allowed for when assessing the future service rate for employers.

1.7 The Fund, like many other similar public and private sector funded schemes, has a gap between its assets and pension liabilities which this strategy addresses.

1.8 A number of factors have contributed to the funding gap and contribution rates for employers:

- investment returns relative to movement in liabilities;
- increases in longevity of pensioners;
- falling long-term interest rates.
- change in CPI inflation expectations

There are some steps that the actuary can take to assist employing bodies. These include:

- recognising the long-term nature of local government, so that deficits are recovered over time. At the 2013 valuation this will be adjusted to a maximum of 22 years which compares to 25 years at the 2010 valuation. This is expected to reduce to 19 years at the 2016 valuation;
- phasing increases in contributions typically over three years where appropriate;
- recognising the changes to the LGPS with effect from 1 April 2014;
- recognising the changes in financial markets after the valuation;
- giving weight to a balanced investment strategy.

1.9 The Fund, since it was established in 1974, has seen variations in its funding level as did the earlier district funds. Over this long period, there has been a consistent approach with the actuarial valuation process, the link to an investment strategy and balanced management of the risks. The current arrangements continue this approach. The critical element is securing diversified investment market returns from world markets. The Fund has a long record of achieving solid returns for all of its portfolios. The approach adopted is to ensure a priority is given to achieving at least a market return and, as recommended best practice indicates, use asset allocation to deliver a substantial part of the investment target.

1.10 As the pursuit of returns becomes ever more complex, combined with the prospect of diminishing returns, the Fund is becoming increasingly aware of the need to balance the relationship between the different asset classes, their returns, their volatility and their correlation with equities. This constitutes the 'risk budget'.

2. Purpose of the Funding Strategy Statement in Policy Terms

2.1 The purpose of this FSS is:

- To establish a clear and transparent Fund-specific strategy which will identify how employers' liabilities are best met going forward.
- To support the regulatory requirement to maintain the common contribution rate as nearly constant as possible.
- To take a prudent longer term view of funding those liabilities.

2.2 The Fund currently has a strong net cash inflow. The FSS supports the process of ensuring adequate funds are put aside on a regular basis to meet future benefit liabilities. The cashflow will be monitored regularly by officers. The LGPS regulations specify the approach and requirements, the implementation of the funding strategy is the responsibility of the Fund acting on expert advice and following consultation.

2.3 The FSS is a comprehensive strategy for the whole Fund. It balances and reconciles the many direct interests that arise from the nature of the Scheme, and funding of the benefits now and in the future.

Funding Strategy Statement 2014

2.4 The solvency of the Fund is a long-term management issue as required by the regulations in terms of setting the funding target. Currently, the net cash inflow is over £120m pa, but it is essential that funds are made available to ensure all future benefits payments can be met when they become due.

3. Consultation

3.1 The LGPS regulations require the administering authority to consult with such persons it considers appropriate in the maintenance and review of the FSS.

3.2 CIPFA provides further guidance that this must include meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of participating employers.

3.3 Employers participating in the Fund have been consulted on the contents of this FSS and consideration has been given to their views accordingly. However, the FSS represents a single strategy for the Fund as a whole, adjusting for individual employers based on the advice of the Fund actuary.

3.4 In addition, the administering authority has had regard to the Fund's *Statement of Investment Principles* published in accordance with the LGPS regulations.

3.5 The Fund actuary, Mercer, has also been consulted in the contents of this FSS.

4. Aims and Purposes of the Fund

4.1 The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies having regard to the liabilities.
- Manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding.
- Ensure that sufficient resources are available to meet all liabilities as they fall due.
- Maximise the returns from investments within reasonable risk parameters
- Minimise the risks to the Fund from its admission arrangements by strengthening its admission arrangements and pursuing a policy of positive engagement.

4.2 The purpose of the Fund is to:

- Receive and invest monies in respect of contributions, transfer values and investment income.
- Pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses. The Local Government Pension Scheme regulations and, in particular, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 define these purposes.

5. Responsibilities Of The Key Parties

5.1 The LGPS regulations set out the responsibilities of the key parties which are summarised below. Further details are available on the Fund's website where operational and management arrangements are set out.

5.2 The administering authority (Wolverhampton City Council) through its Pensions Committee:

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains a FSS and a SIP.
- Monitors all aspects of the Fund's performance and funding. Amends the FSS and SIP as appropriate. The administering authority discharges its responsibilities with the active involvement from the major employers, the district councils and trade unions representatives combined with consultation with interested parties.

5.3 The individual employers:

- Deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the regulations).
- Pay all contributions, including their own as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain.
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Will make significant progress in the transition to electronic data exchange with the submission of member data via bulk data imports (BDI), initially targeting new joiners, before extending to other processes.
- Discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

5.4 The Fund's actuary:

- Prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Sets employer's contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining common contribution rates that are as constant as possible.

Funding Strategy Statement 2014

- Prepares advice and calculations in connection with bulk transfers and individual benefit-related matters.
- Minimise the risks to the Fund from its admission arrangements by strengthening its admission arrangements and pursuing a policy of positive engagement.

6. Solvency Issues and Target Funding Levels

- 6.1** The Fund currently has a strong net cash inflow and can, therefore, take a medium to long-term view on determining employing body contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long-term view. It allows short-term investment market volatility to be managed so as not to cause volatility in employing body contribution rates.
- 6.2** Nevertheless, the Fund recognizes the different characteristics of the variety of participating employer organisations, and will set funding strategy appropriately having regard to factors such as:
- strength of covenant, and security of future income streams;
 - support or guarantor arrangements from Scheme employers;
 - prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the scheme to new employees.

Taking these factors into account, case-by-case assessment review of contribution requirements may, in some cases, prove necessary as part of the triennial valuation process.

- 6.3** The Fund's policy as regards participation of non-scheduled scheme employers, including termination issues, is set out in the comprehensive publication '*Policy on Termination Funding for Admission Bodies*'.
- 6.4** The LGPS regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements.

The approach to the actuarial valuation process and key assumptions used at each three-yearly valuation are consulted upon and the valuation forms part of the consultation undertaken with the FSS.

Determination of the Funding Target and Recovery Period

- 6.5** The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.
- 6.6** Underlying these assumptions there are two tenets:
- that the scheme is expected to continue for the foreseeable future; and
 - favourable investment returns can play a valuable role in achieving adequate funding over the longer term

- 6.7** As part of each valuation, separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the scheme. In attributing the overall investment performance obtained on the assets of the scheme to each employer, a pro-rata principle is adopted. The general approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the scheme as a whole.

- 6.8** The administering authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:
 - some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
 - whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the administering authority, based on the advice of the actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

- A maximum deficit recovery period of 22 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the administering authority considers this to be warranted (see deficit recovery plan below).
- In current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result in addition to the maximum deficit recovery period of 22 years, the Fund will operate standard deficit recovery periods aligned to strength of covenant based on defined employer groups subject to the maximum lengths set out below.
- For transferee admission bodies, where admission to the LGPS is via a contract or other arrangement, the maximum recovery period will be aligned to the contract length, capped at the maximum recovery period of 22 years, or as otherwise agreed with the ceding local authority
- For transferee admission bodies, where closed to new entrants, the maximum recovery period will be aligned to the future working lifetime of its membership, if less than the contract length, capped at the maximum recovery period of 22 years, or as otherwise agreed with the ceding local authority.
- For community admission bodies, where closed to new entrants, the maximum recovery period will be aligned to the future working lifetime of its membership, capped at the maximum recovery period of 22 years, or such other period agreed by the employer and approved by the administering authority.

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- Employer contributions will be expressed and certified as two separate elements:
 - a percentage of pensionable payroll in respect of future accrual of benefits
 - a schedule of fixed £s amounts, increasing annually in line with the valuation funding assumption for long-term pay growth (unless otherwise noted), in respect of deficit recovery subject to review from April 2017 based on the results of the 2016 actuarial valuation.
 - Where increases in employer contributions are required from 1 April 2014, the increase from the contributions payable in the year 2013/14 may be implemented in steps, typically over a period of up to three years.
 - Where an employer has a guarantee from a statutory body participating in the Fund, or from another organisation approved for that purpose by the administering authority, the administering authority will recognise the requirement for the guarantor to be kept abreast of the funding position of the relevant employer, unless the employer indicates otherwise in writing.
 - On the cessation of an employer's participation in the scheme, the actuary will be asked to make a termination assessment. Any deficit in the scheme in respect of the employer will be due to the scheme as a termination contribution, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the scheme to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate guidance published by the Fund.
 - Any employing body with a surplus of assets over liabilities may have the surplus applied over a period that assists the process of smoothing or avoiding increases in contributions over a valuation cycle.
 - The Fund's approach will reflect the ability of employing bodies to meet their pension liabilities and resources available to them when their circumstances have changed suddenly.
 - Any employing bodies who have an improved funding position, may at some point, be presented with the option to de-risk via a lower risk investment strategy.
 - In determining a contribution rate, a prudent approach will be taken to balancing any potential reductions in contributions with the strength of the employing body covenant risk.

Consequently, the administering authority may, at its discretion, levy contributions for a particular employer that are below, or above, those initially certified by the actuary, where it is deemed appropriate to assist with smoothing or control of contribution rates.
 - Where the administering authority does levy an alternative contribution plan for a particular employer, as described above, this will represent an employer-specific funding plan, and will be agreed and documented separately.
 - Academies will be treated in accordance with the factors and legislation that lead to their creation. All will be considered to have the same covenant strength as any scheduled body, and their contribution rates will be calculated to meet the broad intentions of ensuring they are in a similar financial position in respect of pension liabilities pre- and post-transfer to academy status at inception. The policy applied to academies will be reviewed from time to time or if any further guidance emerges.
- 6.9** In determining the above objectives, the administering authority has had regard to:
- the responses made to the consultation with employers on the FSS principles;
 - relevant guidance issued by the CIPFA Pensions Panel;
 - the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose; and
 - the administering authority's views on the strength of the participating employers' covenants in achieving the objective.
- 6.10** There will be an overall reserve, established as a contingency to protect the Fund against funding shortfalls, where employers without a guarantor cease participation in the Fund and cannot pay to remove any deficit. The reserve is based upon a review of those employers without a guarantor and the associated liability exposure and the contributions required to establish this reserve have been built into rates assessed for all employers within the Fund at this valuation. This reserve is subject to review at subsequent actuarial valuations.
- The Normal Cost of the Scheme (Future Service Contribution Rate)**
- 6.11** In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the 'normal cost'). The method and assumptions for assessing these contributions are also set out in the Appendix.
- 7. Links to Investment Policy Set Out in the Statement of Investment Principles (SIP)**
- 7.1** The Fund has, for many years regularly used an asset liability study or some other form of stochastic modelling in order to assist the process of formulating a strategic asset allocation. The outcomes are reflected in the Fund's SIP. The Fund's updated investment strategy has been supporting part of the consultation on the valuation and the FSS. A revised SIP has been produced to reflect the FSS and investment strategy.
- 8. The Identification of Risks and Countermeasures**
- 8.1** Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies those key risks specific to the Fund and the measures being taken or assumptions made to counter those risks.

Funding Strategy Statement 2014

8.2 Some of the key risks taken into account and responses are:

Financial

- Unexpected market-driven events.
- Investment markets fail to perform in line with expectations.
- Market yields move at variance with assumptions.
- Investment fund managers fail to achieve performance targets over the longer term.
- Asset allocations in volatile markets may lock in past losses.
- Pay and price inflation significantly more or less than anticipated.
- The effect of a possible increase in employer's contribution rate on service delivery and employers in general. The Fund has undertaken a regular review of its investment strategy taking into account investment risk and future benefit payments to determine a bespoke investment strategy that for a variety of future economic outcomes gives a high degree of certainty that the investment objectives will be achieved. The Fund has moved to a yearly review from 2011. Short-term investment management decisions to reflect anticipated market changes are strictly controlled against the investment strategy or benchmark.

Investment management briefs reflect the importance of capturing at least a market rate of return and minimising the risk of significantly underperforming an investment market. Further information is available in the SIP and on the Fund's website.

Demographic

- The longevity horizon of beneficiaries continues to expand.
- **Cost of early retirements**
The Fund has in place policies and procedures to identify for employing bodies the impact of these factors and agrees how they will be managed in terms of special additional contributions.
- **Take-up of 50:50 option**
The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.
- **Insurance of certain benefits**
The Fund is still exploring insurance cover for some of the death in service and ill-health costs, with further detailed analysis to follow. The potential for the implementation of such insurance will be determined by the Fund, bearing in mind the associated risk mitigation and employer desirability across the Fund as a whole. The contributions for any employer may be varied as agreed by the actuary and administering authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Changes to regulations, eg, more favourable benefits package, potential new entrants to scheme, changes to the benefit structure etc.
- Changes to national pension requirements and/or Inland Revenue rules. These changes agreed and proposed are evaluated and taken into account in the actuarial valuation and closely monitored between valuations in case any action is required.

Governance

- Administering authority unaware of structural changes in an employer's membership (eg, large fall in employee members, large number of retirements).
- Administering authority not advised of an employer closing to new entrants.
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

The Fund has established inter-valuation monitoring and working relations with its employers to ensure changes are detected, discussed, evaluated and appropriate action agreed. This includes regular reviews of funding levels, bond arrangements where appropriate and the assessment of the financial standing of employers that are not tax-raising bodies.

Employers

- Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy. The Fund's approach to the outcome of the valuation has had regard to balancing the needs of funding the liabilities and the cost to employers. This is reflected in the approach to the phasing of increase, the recovery period for meeting any funding gap, together with the risks associated with the investment strategy. It is considered the approach adopted represents an 'affordable' solution taking all factors into account.

A risk assessment of the sustainability of all employers has been undertaken seeking to establish the risk of an employer failing to meet their pension liabilities. The analysis has looked at the following levels of risk.

In determining the actual recovery period to apply for any particular employer to employer grouping, the administering authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the employer; and the security of future income streams;
- any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

Funding Strategy Statement 2014

Low risk

Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS.

This category would cover:

- a local authority, or equivalent.
- a body for which the Fund has a guarantee of liabilities from a local authority (or its equivalent).
- a body which receives funding from local or central government (eg. colleges and universities).
- a body which has a funding deficiency guarantee from local or central government.
- a best value-type body for which a local authority within the Fund effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 38.

Medium risk

Scheduled bodies not considered as low risk and admitted bodies with no statutory underpin but:

- can provide satisfactory evidence of financial security (eg. parent company guarantee, bond, indemnity, insurance).
- is part of a group of related or pooled bodies which share funding on default.

High risk

An admitted body:

- with no external funding guarantee or reserves.
- with a known limited lifespan or fixed contract term of admission to the Fund.
- which has no active contributors and/or is closed to new joiners.
- which relies on voluntary or charitable sources of income.

This analysis indicates the risk to the Fund's solvency and ability to meet prior liabilities to be low. It will, however, continue to be monitored. A number of small bodies have significant financial challenges due to falling revenues. The Fund will work with these bodies to ensure all interests are considered and an acceptable funding strategy for the pension liabilities is achieved that does not put the Fund's position at an increased risk. In respect of bodies that have fixed-term funding, the aim is that a fully funded position should be achieved with a high degree of certainty by the end of the funding period.

Appendix

Actuarial Valuation as at 31 March 2013

Method and Assumptions Used in Calculating the Funding Target Method

The actuarial method to be used in the calculation of the funding target is the 'projected unit' method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the 'attained age' method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial Assumptions

• Investment return (discount rate)

A yield based on market returns on UK government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the scheme's accrued liabilities, plus an asset outperformance assumption (AOA) of 1.4%. The AOA represent the allowance made, in calculating the funding target, for the long-term additional investment performance on the assets of the Fund relative to the yields available on long-dated gilt stocks as at the valuation date.

• Inflation (consumer prices index - CPI)

The inflation assumption will be taken to be the investment market's expectation for CPI as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK government gilts as at the valuation date, reflecting the profile and duration of the scheme's accrued liabilities, less an adjustment. The adjustment is taken to be 1.0% pa and is in respect of two factors:

- the perceived premium investors are prepared to pay to protect against future inflation rises (known as an inflation risk premium).
- the expectation that CPI is expected to increase at a lower rate than the retail prices index (RPI). An adjustment is required in respect of this, as the indexlinked investments used to determine the market rate of inflation are indexed with reference to the RPI, and so determine a 'market view' of RPI.

• Salary increases

The assumption for long-term real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% pa over the inflation assumption as described above. This includes allowance for promotional increases.

To recognise the relatively low level of salary increases expected in local government in the near future, and as budgeted for in the short term by many employers, the Fund has applied an assumption of 1% pay growth over the next three years reverting to 4.35% (CPI plus 1.75%) thereafter.

For certain employers (typically with the strongest covenant and where evidence from an employer supports it), the Fund has applied an assumption of 1% pay growth over the next five years reverting to 4.35% (CPI plus 1.75%) thereafter.

Funding Strategy Statement 2014

● Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with CPI (eg, guaranteed minimum pensions in respect of service prior to April 1997).

● LGPS 2014 50:50 take-up

The assumed take-up of the 50:50 option, to be introduced with the LGPS 2014 scheme, has been set at 5% of the membership where justifiable by turnover of employers and size of employer. Full details of the assumptions adopted are set out in the actuary's formal valuation report.

Method and Assumptions Used in Calculating the Cost of Future Accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities. The financial assumptions in relation to future service (ie, the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (ie, return in excess of price inflation) of 3.0% pa with a long-term average assumption for price inflation of 2.6% pa. These two assumptions give rise to an overall discount rate of 5.6% pa.
- Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects therequirement in the regulations for stability in the 'common rate' of contributions. In market conditions at the effective date of the 2013 valuation, this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market-related basis used for the assessment of the funding target. At each valuation, the cost of the benefits accrued since the previous valuation will become a past service liability. At that time, any mismatch against gilt yields and the AOA used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the 'normal cost') for the 2013 actuarial valuation

Long-term gilt yields

| | |
|---|-----------|
| Fixed interest | 3.2% pa |
| Index-linked | (0.4)% pa |
| Implied RPI inflation | 3.6% pa |
| Adjustment for inflation risk premium and CPI | (1.0)% pa |
| Implied CPI price inflation | 2.6% pa |

Past service funding target financial assumptions

| | |
|---------------------------------|----------|
| Investment return/discount rate | 4.6% pa |
| Salary increases | 4.35% pa |
| Pension increases | 2.6% pa |

Future service accrual financial assumptions

| | |
|---------------------------------|----------|
| Investment return/discount rate | 5.6% pa |
| Salary increases | 4.35% pa |
| Pension increases | 2.6% pa |

Principal demographic assumptions

| Mortality assumptions | Table | Adjustment |
|---------------------------------|--|------------|
| Male normal health pensioners | S1PMA CMI 2012 M (1.5%) | 99% |
| Female normal health pensioners | S1PFA CMI 2012 F (1.5%) | 96% |
| Male ill-health pensioners | As for male normal health pensioners + 3 years (+4 for future ill-health pensioners) | |
| Female ill-health pensioners | As for female normal health pensioners + 3 years (+4 for future ill-health pensioners) | |
| Male dependants | S1PMA CMI 2012 M (1.5%) | 160% |
| Female dependants | S1DFA CMI 2012 F (1.5%) | 114% |
| Male future dependants | S1PMA CMI 2012 M (1.5%) | 106% |
| Female future dependants | S1DFA CMI 2012 F (1.5%) | 95% |

Assumptions Used in Calculating Contributions Payable

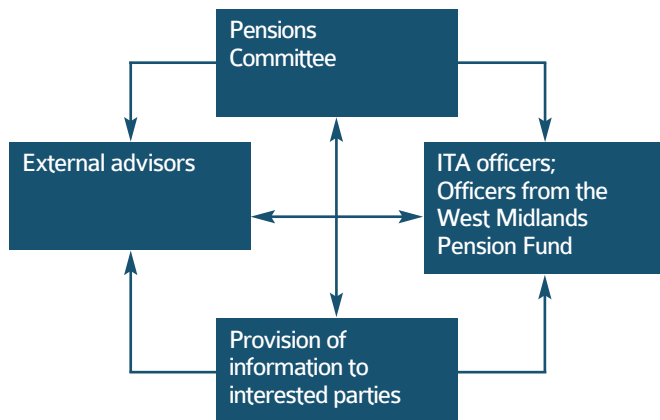
Under the Recovery Plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target.

Governance Compliance Statement 2013

Governance of the Fund

The Fund's governance arrangement has four elements:



Pensions Committee

The management of the administration of benefits and strategic management of the assets is fundamentally the responsibility of the Pensions Committee established by Wolverhampton City Council (the administering authority) which has representation from the seven West Midlands metropolitan district councils and local trade unions. The Committee administers the scheme in accordance with the regulations and best practice, and determines the strategic management of the assets based upon the professional advice it receives and the investment objectives set out.

The roles of the members and the Committee are as follows:

To discharge the functions of the administering authority for the application of the Local Government Pension Scheme regulations in the West Midlands.

- 1 To discharge the functions of the administering authority for the application of the Local Government Pension Scheme Regulations in the West Midlands.
- 2 To 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.
- 3 To determine and review the provision of resources made available for the discharge of the function of administering authority.

The key duties in discharging this role are:

- 1) To monitor compliance with legislation and best practice.
- 2) To determine admission policy and agreements.
- 3) To monitor pension administration arrangements.
- 4) To determine investment policy based upon a medium-term benchmark and quarterly reviews agreeing a short-term tactical position relative to the benchmark.
- 5) To monitor policy.
- 6) To appoint committee advisors.
- 7) To determine detailed management budgets.

The Council delegation to Pensions Committee is as follows:

- a) To exercise the functions of the Council in relation to the administration of the West Midlands Metropolitan Authorities Pension Fund arising by virtue of the Local Government Pension Scheme Regulations 1997, and any subsequent related legislation.
- b) To exercise all the general powers and duties of the Council granted to Cabinet and cabinet teams and standing bodies, provided that those parts of the *Council's Financial Procedure Rules and Contracts Procedure Rules* which relate to the acquisition and disposal of land and the approval of expenditure, shall not apply in relation to such acquisitions and disposals and expenditure in connection with the Fund.
- c) To ensure that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.
- d) To ensure that consideration is given to the impact which the Committee's policies and provision of services have with regard to environmental matters.

Investment Sub-Committee

The Investment Advisory Sub-Committee has oversight of the implementation of the management arrangements and comprises representatives from the seven district councils and two local trade unions.

The Committee meets at least four times a year and its key duties are:

- 1) To monitor and review investment management functions.
- 2) To review strategic investment opportunities.
- 3) To monitor and review portfolio structures.
- 4) To monitor implementation of investment policy.
- 5) 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.
- 6) To monitor investment activity and the performance of the Fund.
- 7) To oversee the administration and investment management functions of the Fund.

The Director of Pensions oversees the implementation of Committee policy and the management of the day-to-day operational functions through the pensions staff delivering Fund services. The Committee and its elected members are advised and supported by the Chief Executive, Director of Pensions and Senior Finance and Legal Officers from Wolverhampton City Council.

Trade Union Representations and Provision of Information to Interested Parties

The Fund invites relevant trade unions to send local representatives to a Joint Consultation Panel which meets at least three times per year to consider the activities of the Fund and elect four representatives to the Pensions Committee and two to the Investment Sub-Committee.

Governance Compliance Statement 2013

Although these representatives do not have voting rights they are treated as equal members of the committees, for example 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.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties. This is achieved through the Fund's communication strategy.

Advisors and Officers

Investments and pensions administration are complex areas and the Fund recognises the need for its Pensions Committee and Investment Advisory Sub-Committee to receive appropriate and timely advice. Against this background, its principal advisors are as follows:

- i) High level advice on general management from the Chief Executive of Wolverhampton City Council.
- iii) Legal and general administrative advice and management from the Senior Legal Officer of Wolverhampton City Council who is also the monitoring officer for the Council.
- iv) Financial and technical advice from the Director of Pensions who is the lead senior support officer and has direct responsibility for the in-house management, as well as implementing the investment strategy through a team of professionally qualified staff and external managers.
- v) Senior pensions staff responsible for pensions benefits administration and communications.
- vi) Senior Finance Officer of Wolverhampton City Council is the Section 151 officer of Wolverhampton City Council and that responsibility applies to the Fund. The Senior Finance Officer is also the investment management monitoring officer as set out in the Fund's *Investment Compliance Manual*.
- vii) A range of external specialist advisors are appointed, covering areas such as:
 - Investment policy, quarterly asset allocation and general investment matters.
 - Actuarial matters.
 - Selection of investment managers, policy and investment matters relative to liabilities.
 - Commercial and industrial property matters, day-to-day management of properties and transactions involving the sale and purchase of UK property.
 - Independent property advice.
 - Company governance issues.
 - Investment strategies and asset allocation.

Other specialist advisors are used as and when needed.

Details of the Fund's advisors are published in the Fund's *Annual Report*.

Role of Council Members

Wolverhampton City Council is responsible for administering and discharging the functions as administering authority for the West Midlands Pension Fund. In addition to discharging the administration of benefits, recording of contributions, etc, the Council is also responsible for the investment of the Fund monies. Because the Fund covers the majority of local government employees in the West Midlands, as well as many admitted bodies, representatives from all seven district councils serve on the Committee and the Investment Sub-Committee. There is also active representation on behalf of the employees and pensioners from trade union representatives. Investments are a special area for members to consider as it is different to normal Council business.

When considering the advice and determining investment policy, members are effectively acting as trustees and as such need to understand the special obligations placed upon trustees. These responsibilities are additional to those carried out as an elected member of a local authority. Members' duties as trustees are 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 they may have to make decisions that in other political circumstances they may choose not to make. The overriding consideration for them as trustees, however, has to be for the benefit of the Fund and its contributors and beneficiaries. The advice of the Fund's advisors is very important in discharging this responsibility. Trustees can delegate some of their powers but not the responsibilities that go with them. They are not expected to be qualified to give investment advice or to initiate investment policy. They must be aware of what is proposed by their advisors and be sure that it is relevant to the needs of the Fund and within their powers.

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 advisors they employ. Testing adherence to policy on a regular basis is essential. These requirements will consist of meetings and regular written reports with professional advisors whose skills and judgements can be relied upon. So far as the Fund is concerned, the advice is provided mainly by Council officers and the advisers detailed in the *Annual Report*.

In addition to the setting of policy and investment parameters for the Fund, there should be a formal meeting each year at which the investment returns are reviewed. There might well be other formal meetings of trustees to which managers make a brief report, or supplement their written material. The following are extracts from leading court judgements made about the role of trustees. These extracts stress the independent fiduciary duty required of a trustee and the requirement to put the needs of the beneficiaries first at all times. These comments apply to all trustees, including members, involved in pensions work.

Governance Compliance Statement 2013

The Duty of Trustees

The duty of the trustees is to exercise their powers in the best interests of the present and future beneficiaries of the trust. Holding the scales impartially between different classes of beneficiaries is paramount. They must, of course, obey the law but subject to that they must put the interests of their beneficiaries first.

When the purpose of the trust is to provide financial benefits for the beneficiaries, the best interests of the beneficiaries are normally their best financial interests. In the case of a power of investment, the power must be exercised so as to yield the best return for the beneficiaries, judged in relation to the risks of the investment in question and the prospect of the yield of income and capital appreciation, both have to be considered in judging the return from the investment.

Standard Required of a Trustee

The standard required of a trustee in exercising their powers of investment is that they must take such care as an ordinary prudent person would take if they were minded to make an investment for the benefit of other people for whom they 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 they are acting as an ordinary prudent person would act.

View of Secretary of State

The Secretary of State for the Environment has previously indicated that administering authorities should pay due regard to the principle contained in *Roberts v Hopwood* in exercising their duties and powers under the regulations governing the investment and management of funds. 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. ”

Members and Officers' Knowledge and Skills

Member and officer knowledge and skills is recognised as important and a range of measures are in place to equip members to undertake their role.

This is a major factor in the governance arrangements of the Fund in ensuring Committee members and officers have the relevant skills and knowledge. The Fund applies the *CIPFA Knowledge and Skills Framework* to achieve this objective.

Framework

Six areas of knowledge and skills have been identified as core technical requirements for those associated with LGPS pension funds:

- Pensions legislation and governance context
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices

It is not the intention that Committee members should individually become technical experts, but collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

Officers advising members and implementing decisions should have a more detailed knowledge appropriate to their duties.

Officers are expected to demonstrate their professional competency against the framework through appropriate 'continuing professional development' (CPD) arrangements'. The Fund has an approved *Trustee Training Policy* in place, and includes in its annual report and accounts details of the knowledge and skills development undertaken by its Committee members. It is being proposed that it will become a regulatory requirement for funds to explain their compliance with the CIPFA framework and in particular cover:

- how the framework has been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs

Representation of Other Interested Parties

The Fund is open to any organisation with a direct interest attending the regular committee meetings to observe proceedings, and the Fund will engage with employing bodies on significant issues affecting them so their views can be taken into account before a decision is made, eg, three-yearly actuarial valuations.

The Fund will provide information on its website and directly to employing bodies on issues in which they may have an interest.

The Joint Consultative Panel is seen as the main area of involvement of active, deferred and pensioner members. The Fund does engage directly with individual members providing relevant and interesting information, the content determined by the responses to the information provided and requested.

Governance Compliance Statement 2013

Origins of the Fund and Responsibilities

Following the 1974 reorganisation, all Council employees in the area (excluding teachers, police and fire officers) were members of the West Midlands Superannuation Fund with the former county council as administering authority. The 1986 reorganisation led to Wolverhampton Council becoming the administering authority for the Fund and local government employee pensions other than teachers, police and fire officers in the West Midlands. Responsibility for discharging the administering authority role is delegated to the Pensions Committee which has representatives from the district councils as the largest employers and four trade union representatives nominated from the Joint Consultative Panel of trade union representatives from the region.

The changes in responsibility for the delivery of Council services have seen a growing number of private sector firms and voluntary organisations becoming members of the Fund in respect of the workforce that delivers public services.

The LGPS regulations set out the responsibilities of the key parties which are summarised below. Further details are available on the Fund's website where operational and management arrangements are set out. The administering authority (Wolverhampton City Council):

- Collects employer and employee contributions.
- Invests surplus monies in accordance with the regulations and agreed strategy.
- Ensures that cash is available to meet liabilities as and when they fall due.
- Manages the valuation process in consultation with the Fund's actuary.
- Prepares and maintains an *FSS (Funding Strategy Statement)* and an *SIP (Statement of Investment Principles)*, both after consultation with interested parties.
- Monitors all aspects of the Fund's activities and funding.

The administering authority discharges its responsibilities with the active involvement from the major employers, the district councils and trade union representatives combined with consultation with other interested parties.

The individual employers:

- Deduct contributions from employees' pay.
- Pay all contributions as determined by the actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, early retirement funding strain.
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

The Fund's actuary:

- Prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.
- Sets employers' contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining contribution rates that are as constant as possible.

Compliance and Best Practice

The Fund is required to publish a compliance statement under Regulation 73A of the Local Government Pension Scheme regulations and review that statement on an ongoing basis under Regulation 31 of the 2008 Regulations. There is also a requirement to declare their compliance in meeting the guidance given by Secretary of State.

The Fund aims to comply fully with the guidance given by the Secretary of State and relevant guides produced by CIPFA.

Communications Policy Statement 2014

Introduction

Your comments on how the West Midlands Pension Fund communicates – good or bad – with any of our stakeholders are welcome.

If you want to get in touch with us about the way in which we communicate, please contact us using the details found later in this document.

In April 2006, the Local Government Pension Scheme (LGPS) regulations were amended to state that each pension fund administering authority is required to prepare, publish and review regularly its communications policy statement.

This document outlines the Fund's policy concerning communications with the following people and organisations.

The Fund has identified six distinct groups with whom it needs to communicate:

- Pension Committee members
- Scheme members
- Prospective scheme members
- Scheme employers
- Fund staff
- Other bodies

Diversity of Communication

The Fund's communication material is designed within the boundaries of the channel for which it is meant. Printable publications are made available on the Fund's website at wmpfonline.com, and contain links and information that wouldn't be possible to incorporate into a printed version.

All information is also available in alternative formats (for example, Braille and large print). In cases where one-off personalised information is requested in either Braille or large text format, it can take up to ten working days for it to be prepared.

A truly effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers. Set out in this document are the channels which may be used to meet those communication needs. The Fund aims to use the most appropriate communication medium for the audiences receiving the information. It is recognised that this may involve using more than one method of communication for each group.

Pension Committee Members

Committee members receive directly all meeting papers and full access to all Fund material produced for employers, employees' pensions and third parties. As part of its main website at wmpfonline.com, the Fund provides information which contains the relevant scheme booklets and information. In accordance with the trustee training policy, knowledge building and training is provided via the Fund's officers, advisors and external experts with regards to investment and administration matters.

The Fund has embraced the *CIPFA Knowledge and Skills Framework*, and will work to expand elected members' knowledge upon this framework.

The role of the elected member through the Pension Committee is also supplemented by sub-committees, such as the Investment Advisory Sub-Committee, at which specific advice can be provided by officers and external advisors. The seven district councils in membership of the Fund are represented at meetings, as are the trade unions who attend all meetings on an observer basis, but whose views are given equal weighting.

The trade union representatives are generally scheme members in that they are active, deferred or pensioner members. The work of the trade union members is supported by a Joint Consultative Forum of trustees and trade union representatives.

Scheme Members

Internet

The Fund has established an extensive website at wmpfonline.com containing scheme details and leaflets, etc. There are also links to other organisations relevant to scheme members, for example, AVC providers, employers' organisations, etc.

Benefits Statements

An annual benefit statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year-end and do not form a pending pension transaction. Benefit statements are sent direct to the home address of deferred members where a current address is known. Active and deferred members are able to register for the Fund's web portal facility, where a copy of individual benefits statements are available to view or print at any time. From April 2015, benefit statements will only be issued in paper form on written request.

All members are encouraged to inform the Fund directly of any change of address. The Fund has a formal policy on dormant records and members are provided with this information at various times.

The Fund also takes reasonable steps to ensure we maintain a current and accurate address database subject to the accepted Royal Mail format – PAF (postal address format).

Scheme Literature

An extensive range of scheme literature is produced by the Fund and is supplied to employing bodies and scheme members directly. Copies of scheme literature form part of the Fund's website at wmpfonline.com.

As changes to the scheme are announced and implemented, the literature will be updated accordingly and posted on the Fund's website at wmpfonline.com.

Communications Policy Statement 2014

Pay Advices

The Fund issues a pay advice to all monthly paid scheme pensioners in April. In the months of May through to March, we will only send a pay advice when there is a variance of £10 in their gross or net payment. For scheme pensioners that are paid quarterly and annually, the Fund will issue a pay advice every time a payment is made (June, September, December and March). Scheme pensioners can also register to use the Fund's web-portal application where the pay advice can be viewed and printed at any time following the payment date.

Scheme pensioners are issued an annual end-of-year certificate (P60) to comply with HMRC guidance which will be provided in March 2013 and will continue on an annual basis accordingly.

The pay advice is used as a multifunctional communication mechanism, messages are included on the reverse each time they are produced. The Fund's website will continue to display updates for pensioners to convey specific messages, for example, pensions increase and HMRC taxation information.

Correspondence

The Fund uses both surface mail and email to receive and send correspondence, all staff have access to send and receive email. The Fund will, where appropriate, use downstream access (DSA) providers to minimise costs for large bulk mailing such as annual benefits statements, but it will research services offered by the DSA providers to ensure the service offered is in accordance with that expected of a mail carrier, and that it will not impact on the end-delivery service to customers where relevant.

Dedicated Telephone Helpline

Members: 0300 111 1665

A dedicated low-call rate telephone customer service centre is provided for scheme members and is widely publicised in scheme literature. A password security system has been implemented which allows scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

Pensions Roadshows

The Fund stages biennial pension roadshows where it visits the civic buildings of the seven district councils. Outside these events, satellite roadshows are held at outlying employer sites, particularly when there may be organisational changes occurring which have pensions implications.

The self-contained vehicle provides an opportunity for officers to go onsite and meet with scheme members while having the full range of communication material present, as well as colleagues from Prudential who are the Fund's AVC partner. This can be done with the minimum of disruption to employers, as the vehicle can be located at workplace locations without the need for employers to find a suitable meeting room.

A concerted effort is currently being made to broaden this onsite work, and employers are being invited to seek assistance with pension matters at the earliest opportunity. In the current climate, this service has provided a good way of dealing with members' enquires face-to-face in order that full support can be given to them and their employees.

Pension Clinics and Surgeries

Officers of the Fund attend employer sites to see members on a one-to-one basis where requested to do so. This can be at the request of an employer where there is significant change to employment terms or at the request of members who feel they are unaware of the benefits of the LGPS. The emphasis of these events is to reassure members about the benefits offered by the scheme or to explain in greater detail where members have a challenge in understanding the complex make-up of the LGPS benefit structure. These sessions are offered to employers at no cost and continue to be a practical way of resolving issues within the workplace, promoting the LGPS and the Fund's reputation and willingness to respond to member queries.

Club Together

The Fund provides pensioners with an annual magazine through the affinity group, *Club Together*. The magazine is published by the affinity group and the Fund use the distribution as a vehicle to include a newsletter providing relevant pension information.

Existence Validation: Pensioners Living Abroad

The Fund undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

The costs of the exercise is usually outweighed by the number of validations that lead to pensions being suspended or stopped early due to the death of the member where we have yet to be informed.

Web Portal Facility

An online portal provides members with a secure access to their Local Government Pension Scheme records. The facility provides members with the opportunity to keep the Fund updated with their personal details, ask questions, access annual benefit statements and run pension estimate calculations. Pensioners of the Fund are also able to view pension pay information via the portal.

Prospective Scheme Members

Scheme Booklet

Upon appointment with their employer, all new prospective scheme members will be provided with a link to the Fund's website at wmpfonline.com where they can access scheme booklets.

Website

The Fund's website at wmpfonline.com will contain specific information for non-joiners. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to opt out of the scheme.

Communications Policy Statement 2014

Non-Joiner Campaigns

The new joiner campaigns have been superseded by the introduction of the automatic enrolment legislation.

Corporate Induction Courses

Where required, Fund officers will attend corporate induction events in order to present to prospective scheme members the benefits of joining the LGPS.

A 'one-on-one' surgery will also be offered to take account of individual queries that may be raised at such meetings.

Pension Roadshows

As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from in-house AVC providers.

This will ensure members receive the information required to make an informed choice with regards to their pension provision.

Trade Unions

We will work with the relevant trade unions to ensure the scheme is understood by all interested parties. Training days for branch officers can be provided upon request, and efforts will be made to ensure that all pension-related issues are communicated effectively with the trade unions.

Scheme Employers

Internet

The Fund has established an extensive website at wmpfonline.com containing scheme details and leaflets, etc.

Dedicated Telephone Helpline

Employers: 0300 111 6516

A dedicated low-call rate employer customer service line was introduced during 2010/2011. This allows the Fund to respond to employer generated telephone calls as a priority at peak times, rather than introduce automated telephone responses.

Technical Newsletter

A technical newsletter, entitled *Employer's Briefing Note* is issued on a bi-monthly basis to all employers. This medium is also used to communicate any issues that are currently under debate. Changes to the regulations which impact upon the employer's function or their employees are also covered.

Employers' Manual

An employers' manual is issued to assist the smaller employers in discharging their pensions administration responsibilities.

Ill-Health Retirements

A *Guidance Manual for Approved Doctors* has been circulated to appropriate employers within the Fund.

All Employer Meetings

The Fund has introduced an annual general meeting for employers which is used to communicate strategic issues, Fund performance, legislation changes and triennial valuation matters. Meetings may also be arranged in addition to the annual general meeting in order to address specific topics, for example, consultation meetings were organised when the draft regulations were released in connection with the 2014 changes to the scheme.

The Fund also hosts a second employer event in which employers can be further kept up to date with important issues. This is usually held in the summer (as opposed to the AGM which is a winter event) and is known as the 'mid-year review'. This event takes the form of roundtable discussions.

Access to Computerised Pensions Administration System, Fund Website and Web Portal

Each major employer has access through the Fund's online portal to the pension records of their current employees, together with a calculation suite for the provision of estimates direct to employees. This has been developed to improve efficiency and convenience for both employers and members of the Fund.

The portal provide benefits to employers which include the ability to make online changes to active member details such as changes in hours and change of address, provide the facility to calculate early retirement estimates and employer early retirement costings, as well as view pension records for their active members.

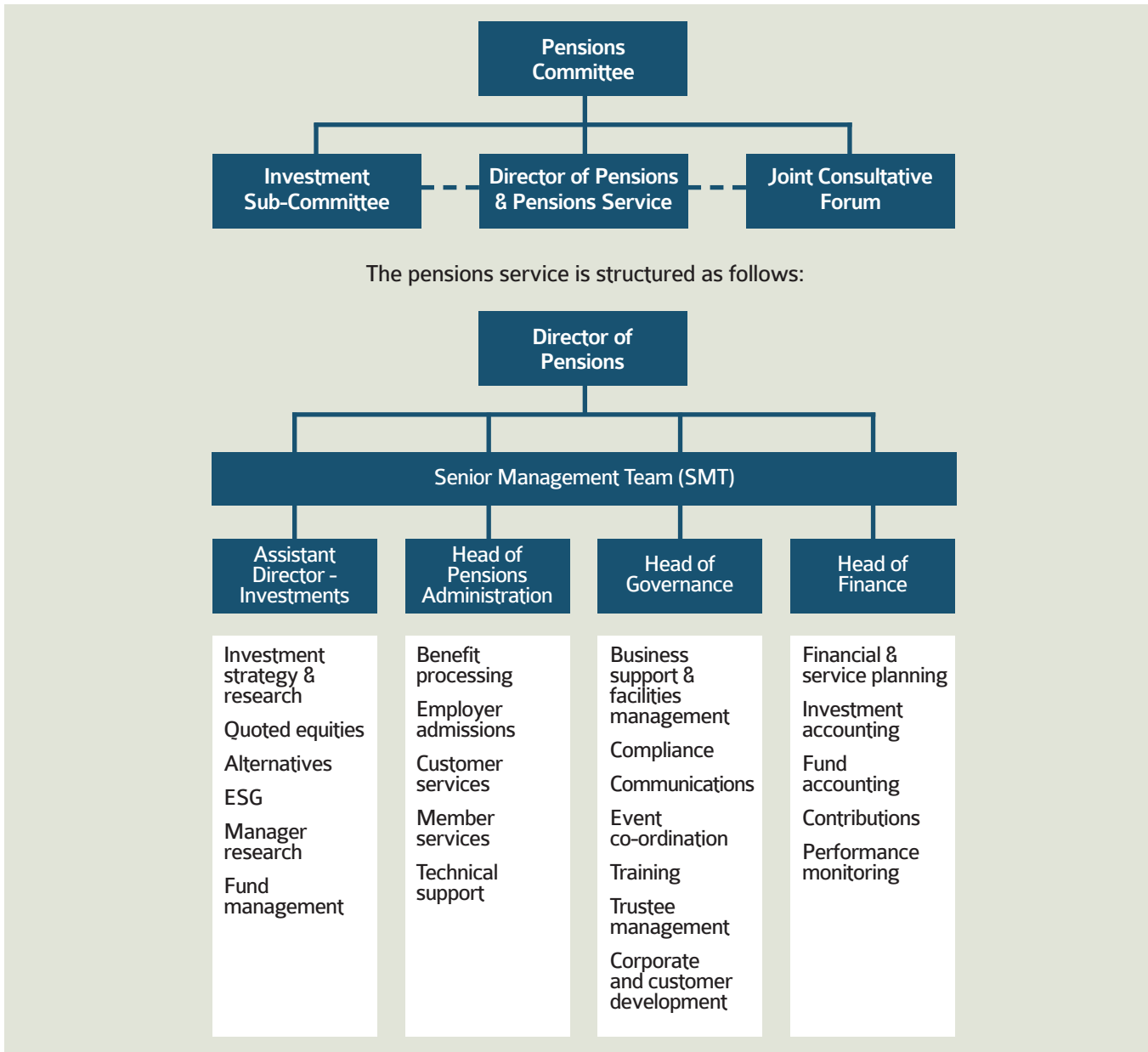
Employers' Manual

A group consisting of a cross-section of Fund employers was set up in 2013/14 to give feedback on the communication initiatives planned to promote the scheme changes of 1 April 2014. The group has become highly effective in representing the views of scheme employers and will remain in place to provide a voice on Fund activities.

Communications Policy Statement 2014

Fund Staff

The Fund's day-to-day management is headed up by the Director of Pensions. For day-to-day functionality, the principal functions are carried out by:



Management Meetings

SMT Senior Management Team

Senior managers from the relevant sections are required to attend a monthly meeting with the Director of Pensions to discuss strategic and workload issues.

Staff Standards

Staff are expected and will be supported in order that they can operate within the following standards:

- Public expectations of how staff from the Fund should operate.
- Professional body standards to which staff are members.
- The Council's constitution.

v) Specific service standards, eg, investment compliance manual, benefits, operating service standards.

v) With an attitude and approach that directly delivers a responsive, friendly, professional service and supports colleagues in achieving this objective.

vi) In accordance with the Fund service defined operating practices.

Team Meetings

Office and/or team meetings are held on a regular basis. Any items arising from such meetings can be escalated through senior managers to SMT.

Communications Policy Statement 2014

SharePoint

SharePoint gives all staff access and contain such information as procedure manuals, core briefings, LGPC circulars, etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

Induction

All new members of staff undergo an induction, which is supported by an induction/personnel manual. The Fund has introduced a performance appraisal scheme for staff which is backed by a balanced scorecard approach. There is, therefore, a responsibility on all staff to ensure effective communication at all levels across the service.

Internet

All staff are able to use the corporate network in order to access the internet.

Emails

All staff have access to the email facility.

Project Management

The Investment Division complies with FSA requirements in order to benchmark its work and operating standards. All major projects are subject to formal management arrangements.

Director of Pensions

The Director of Pensions maintains an open-door policy, and attempts to make herself available to all staff through regular surgeries.

Website

The Fund has maintained a website for several years at wmpfonline.com.

While this is intended primarily as a means of external communication, access to the site does prove helpful to Fund staff. Where necessary, information is also made available on the Fund's intranet.

Staff Briefings

The staff of the Fund are able to sign-up for monthly briefings on a variety of topics. These are designed to give staff a flavour of the activities of areas of the business in which they would not normally have day-to-day contact.

Staff Briefing Note

Fund staff receive a bi-monthly publication called the *Staff Briefing Note* which updates them on the activities of all areas of the business, changes in legislation, new staff and the Fund's charitable activities. Content is curated by the Fund's Communication Officer and is submitted by Fund officers.

Staff Forum

The views of the staff are taken into account through the Staff Forum which is made up from representatives from all areas of the business. The Staff Forum discuss Fund issues and make recommendations to the Senior Management Team in their monthly meetings.

Other Bodies - Opportunities for Exchanges of Information and Communication of Pensions Issues

Trade Unions

Trade unions in the West Midlands are valuable ambassadors for the scheme. They ensure that details of the scheme's availability are brought to their members' attention, and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the scheme.

Shrewsbury Pensions Officers' Group

Pensions officers from administering authorities in the region meet regularly in order to share information and ensure uniform interpretation of the scheme, and other prevailing regulations.

The Press

The Fund has developed a strong media profile through its success in pension industry awards, articles authored by Fund officers and press releases to stakeholders.

Seminars

Fund officers regularly participate at seminars and conferences.

Joint Consultative Forum

A Joint Consultative Forum meets quarterly at which elected representatives from the district councils in membership of the Fund are present, together with a wide audience of trade union representatives. These meetings are informed of the issues being discussed by scheme trustees and broader pensions matters which may be of interest to trade unions and their members.

Local Government Association (LGA) Communications Working Group

The Fund is represented on the national group by its Communications Officer and makes up one of the 16 represented pension funds. The group discusses communications topics and collaborates by sharing best practice.

Communications Policy Statement 2014

Media Matrix

| Communication Material | Paper-based | Electronic form (PDF) | SharePoint for staff | Website | Web portal | Large sight copy | Braille | When published | When reviewed |
|--|-------------------|-----------------------|----------------------|------------------|------------|------------------|--------------|----------------------|------------------------|
| Short Guide to the LGPS | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | Constantly available | Quarterly |
| All About Your Scheme | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | Constantly available | Quarterly |
| Benefit statements | Upon request form | Non-personalised | ✓ form | Non-personalised | ✓ | Upon request | Upon request | Annually | Annually |
| Information sheets (various) | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | Constantly available | Constant review |
| Report and Accounts | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | Annually | Annually |
| Glossary of Pension Terms | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | Annually | Annually |
| The Role of Actuary and Advisor | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | Annually | Annually |
| Customer Charter (our service standards) | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | Constantly available | Annually |
| Employers' Manual | Upon request | ✓ | ✗ | ✗ | ✗ | Upon request | Upon request | Constantly available | Annually |
| Pay Advice | Upon request | ✗ | n/a | ✗ | ✓ | Upon request | Upon request | Produced monthly | After each publication |
| Press Articles | Upon request | ✓ | ✓ | ✓ | ✗ | Upon request | Upon request | As required | After each publication |

Administering Authority Policy Statement 2014

Under the LGPS Regulations, the Fund is required to formally publish its policy on "discretions". Discretions is taken to include where the administering authority is required to carry out a task, but an element of choice is seen to exist as to how the task is completed.

Unless stated otherwise the references to regulations are to the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007(as amended), the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and the local Government Pension Scheme Regulations 1997(as amended).

The following prefixes will be used in this document to indicate the relevant regulations:

- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Admission of Admission Bodies [Regulation R4, R3(5) RSch2]

The administering authority may make an admission agreement with any admission body. The administering authority can also make admission agreements with a care trust, NHS scheme employing authority or Care Quality Commission.

The Council will usually agree to an admission agreement with an admission body that is regarded as having a community of interest provided it is satisfied about the long term financial security of the body or it has a public sector guarantee. The administering authority will enter into an admission agreement with other admission bodies provided that any requirements it has set down are met.

Right to Terminate Admission Agreement [RSch2]

The administering authority has the right to terminate an admission agreement in prescribed circumstances. The Council shall retain the right to terminate an admission agreement in the event of:

- a) The insolvency, winding up or liquidation of the admission body,
- b) A material breach by the admission body of any of its obligations under the admission agreement or these regulations which has not been remedied within a reasonable time, or
- c) A failure by the admission agreement to pay any sums due to the Fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

Additional Pension Contributions [R16]

The administering authority may turn down a request to pay an additional pension contribution (APC) or shared-cost additional pension contribution (SCAPC) over a period of time where it would be impractical to allow such a request. The member would still be able to pay via a single lump-sum payment.

Due to the administration costs involved requests to pay additional pension contributions or shared-cost additional pension contributions over a period of time in order to address an absence from work of less than ten working days will be refused unless there are exceptional circumstances.

Medical Examination Required for Purchase of APC/SCAPC [R16]

The administering authority may require the member to undergo a medical at their own expense and may refuse an application if the authority is not satisfied that the member is in reasonably good health.

The Council will require that a member provides satisfactory medical evidence to ensure they can be reasonably expected to complete the contract undertaken and will not retire due to a pre-existing medical condition on health grounds. No medical shall be required if the member is paying for the additional pension by means of a lump-sum payment.

Payment of Additional Voluntary Contributions on the Death of a Member [R17]

The administering authority shall decide to whom to pay any AVC monies, including life assurance monies are to be paid to on death of a member.

The Council will decide based on the individual circumstances of the case, who should receive payment of the monies having regard to that it should be paid to or for the benefit of the member's nominee, personal representative or any person appearing to the authority to have been a relative or dependent of the member.

Provision of Estimates in Relation to Transfers of AVCs/FSAVCs [TP15 and A28]

The administering authority may charge a member for providing an estimate of additional pension that would result from a transfer of in house AVC/SCAVC contributions.

The Council has determined that it will not charge for such estimates.

Pension Accounts [R22]

A pension account may be kept in any form that the administering authority considers appropriate.

The Council will decide the form in which pension accounts are kept based upon any published information or best practice and in an efficient manner.

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Concurrent Employment and the Absence of an Election Form [TP10]

The administering authority shall decide in the absence of an election form from the member within 12 months of ceasing a concurrent employment, and where there is more than one ongoing employment which ongoing employment the benefits from the concurrent employment should be aggregated with.

The one with the longest likely lifespan or the ongoing employment that is most similar to the one that has ceased will be selected.

Retirement Benefits [R30]

The administering authority, in cases where the current employer or the former employer has ceased to be a Scheme employer, may consent to waive, in whole or in part the actuarial reduction where the member voluntarily draws their pension before normal pension age.

The administering authority may also in cases where the current employer or the former employer has ceased to be a Scheme employer may consent to waive, in whole or in part the actuarial reduction on benefits paid on flexible retirement. Where a request is received, it will be considered on an individual basis and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justified.

Strain on the Fund [R68]

The administering authority may require an employer who allows a member to retire by reason of flexible retirement, redundancy or business efficiency to pay the additional charge on the Fund. This also includes the cost where the employer has chosen to waive any reduction on flexible retirement or where the member voluntarily draws benefits before normal retirement age.

The Council will require an employer to make the appropriate payment to meet the additional charge where the member has retired early through flexible retirement, redundancy, business efficiency or where the employer has exercised their discretion to waive any reduction as a result of flexible retirement or voluntary retirement.

Switching on the Rule of 85 [TP Sch 2]

In cases where the current employer or former employer has ceased to exist, the administering authority may consent to switch on the 85-year rule where the member is voluntarily drawing benefits on or after age 55 and before age 60.

Where a request is received, it will be considered on an individual basis and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justified.

Waiving the Reduction [TP Sch 2 & B30]

In cases where the current employer or former employer has ceased to exist, the administering authority may consent to waive any actuarial reduction on the benefits on pre- and/or post-April 2014 benefits.

Where a request is received it will be considered on an individual basis and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justified.

Strain on the Fund [TP Sch 2]

The administering authority may require an employer to pay any additional costs as a result of the employer waiving the reduction in cases where the employer has consented to the early payment of on benefits before age 60 under Benefit Regulation 30.

The Council will normally require the employer to make the additional payment to meet any additional cost.

Extension of the Time Limit to Draw Benefits [R32]

The administering authority shall decide whether to extend the time limits in which a member must give notice of their wish to draw their benefits before normal retirement age or upon flexible retirement.

Where a request is received asking for the time limit to be extended, the individual circumstances will be considered on whether it is appropriate to extend the time limit.

Commutation of Small Pensions [R34 & B39]

The administering authority may commute a small pension into a single lump-sum.

The administering authority will commute small pensions when a member has made a request.

Independent Registered Medical Practitioner – Approval [R36 & A56]

The administering authority shall approve the choice of the medical practitioner used by the employer for ill-health retirement.

A medical practitioner who is registered with the General Medical Council and who has the appropriate qualifications specified in the regulations will be approved.

Certificate Produced by an IRMP Under the 2008 Scheme [TP]

In cases where the employer or the former employer has ceased to exist to be a scheme employer, the administering authority can use a certificate produced by an IRMP under the 2008 Scheme to make a determination under the 2014 Scheme.

The certificate will be allowed except in circumstances of a particular case the certificate is not compliant with the requirements of the 2014 Scheme.

Early Payment on Ill Health Grounds - Deferred Member [R38]

In cases where the employer or the former employer has ceased to exist to be a scheme employer, the administering authority shall decide whether the deferred member meets the criteria of being permanently incapable of carrying out their former job and are unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is sooner.

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the independent registered medical practitioner.

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Early Payment on Ill Health Grounds – Deferred Pensioner Member [R38]

In cases where the employer or the former employer has ceased to be a scheme employer, the administering authority can decide whether a deferred pensioner is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.

Where a request is received each case will be considered individually and a decision will be made based on the medical evidence and opinion provided by the independent registered medical practitioner.

Payment of the Death Grant [R40, R43, R46, TP17 & B23, B32, B35]

The administering authority has absolute discretion in determining the recipients of any death grant payable from the scheme.

Normally, the death grant will be paid to the nominated beneficiary or the death grant could be paid to the estate of the deceased. Where either or both of these options are seen to be inappropriate or impossible, the Council shall exercise its absolute discretion in as to who should receive the death grant.

No Double Entitlement - Benefits Due Under Two or More Regulations [R49 & B42]

The administering authority may decide, in the absence of an election form from a member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations for the same period of scheme membership.

The member would be notified of the payment of the benefit that would provide the highest level of payment.

Admission Agreement Funds [R54]

The administering authority may establish an admission agreement fund.

The Council has chosen not to set up an admission agreement fund.

Governance Compliance Statement [R55]

The administering authority must prepare a governance policy stating whether the administering authority delegates its functions or part of its functions in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority, and if they do so delegate, state:

- the terms, structure and operational procedures of the delegation
- the frequency of any committee or sub committee meetings
- whether representatives of employing authorities or members are included and if so whether they have voting rights

The policy must also state:

- the extent to which a delegation, or the absence of a delegation, complies with Secretary of State guidance and to the extent it does not so comply, state the reasons for not complying; and
- the terms, structure and operational procedures appertaining to the local Pensions Board.

The governance compliance statement will be prepared, maintained and published. A copy will be made available on our website at wmpfonline.com.

Funding Strategy Statement [R58]

The administering authority must after appropriate consultation prepare maintain and publish a statement setting out its funding strategy. The statement has to be published no later than 31 March 2015.

The *Funding Strategy Statement* will be prepared, maintained and published. A copy will be made available on our website at wmpfonline.com.

Pension Administration Strategy [R59]

The administering authority may prepare and publish a pension administration policy and the matters it should include.

The administering authority will publish a pension administration strategy after consultation and it will be kept under review.

Communications Policy [R61]

The administering authority must prepare and publish its communication policy. It must set out its policy concerning communication with members, representatives of members, prospective members and scheme employers, as well as the format, frequency and method of communications, and the promotion of the scheme to prospective members and their employers.

The administering authority will publish and maintain a communications policy, a copy of which will be made available on our website at wmpfonline.com.

Revision of Employer's Contribution Rate [R64]

The administering authority may obtain from the actuary, a certificate revising the employer contribution rate, if there are circumstances which make it likely a scheme employer will become an exiting employer.

A revised additional rate and adjustments certificates regarding employer contributions will be obtained where it appears to be appropriate.

Aggregate Scheme Costs – Revised Certificates [R65]

The administering authority may obtain a new rates and adjustments certificate if the Secretary of State amends the regulations as part of the 'cost-sharing' arrangements.

A new rates and adjustments certificate will be obtained where it appears to be appropriate.

Employer Contributions – Dates for Payment [R69]

The administering authority shall decide on the dates which contributions are to be paid over to the Fund.

All contributions (apart from additional voluntary contributions) should be credited to the Fund without delay by the 19th of the month following the month in which they fall due.

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Information Provided by Employers About Contributions – Frequency and Format [R69]

The administering authority shall decide on the form and frequency of the information to accompany payments to the Fund.

The administering authority will provide to employers the specified formats that employers are to use for their year-end returns. A notification will be issued each year to inform employers of the deadline to submit this data along with any format changes that will be required. The Fund requires this data to be submitted to them no later than 30 April.

Notice to Recover Costs Due to Employer's Performance [R70]

The administering authority will decide to issue the employer with a notice to recover additional costs incurred as a result of the employer's level of performance.

The Council will review from time to time whether to issue an employer with notice to recover additional costs incurred as a result of the employer's level of performance.

Employer Payments – Interest on Overdue Payments [R71]

The administering authority may charge interest on payments by employers which are overdue.

The Council reserves the regulatory-prescribed right to require interest to be paid when payments are overdue by more than one month. Interest must be calculated at one per cent above base rate on a day-to-day basis from the due date to the date of payment and compounded with three monthly rests.

Procedure to be Followed When Exercising Stage 2 Dispute Functions and the Manner in Which Those Functions are to be Exercised. [R76 & A60]

The administering authority will decide how it will exercise its stage-two dispute procedure and the procedure to be followed.

The review would be undertaken by a person not involved in the first-stage decision and by a person appointed to deal with disputes referred to it under stage 2. The Council will ensure suitable procedures are in place.

Appeal to the Secretary of State Against Employer Decision [R79 & A63]

The administering authority may appeal to the Secretary of State against an employer decision or lack of an employer decision.

The Council will appeal to the Secretary of State if it believes an employer has made (or failed to make) a decision that is both wrong in law and material and where we have been unable to persuade the employer to alter its actions.

Exchange of Information [R80]

The administering authority shall specify the information to be supplied by employers to enable the administering authority to discharge its function.

The Council will specify the information that is to be supplied by employers having regard to the regulatory requirements and best practice.

Making Payments in Respect of Deceased Person Without Probate/Letters of Administration [R82 & A52]

The administering authority may pay the whole or part of the amount due from the Fund to the personal representatives or any person appearing to be beneficially entitled to the estate without the production of probate or letters of administration where the amounts due are less the amount specified in section 6 of the Administration of Estates (Small Payments) Act 1965.

Payment will normally be made without the production of probate or letters of administration where the amount is below the specified amount.

Payments for Persons Incapable of Managing Their Affairs [R83 & A52]

The administering authority may decide where a person (other than an eligible child) appears incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person to be applied for the benefit of the member.

Where in the Council's opinion a member is unable to manage their own affairs then, having considered the individual circumstances of the particular case, they may decide to pay some or all of the benefits to someone else to be applied for the benefit of the member.

Date to Which Benefits Shown on Annual Benefits Statement are Calculated [R89]

The administering authority will decide the date to which benefits shown on the annual benefits statement are calculated.

The date will be selected having had regard to regulatory requirement and best practice.

Bulk Transfer (Transfer of Undertakings) [R98]

The administering authority must agree any bulk transfer payment.

The terms of the bulk transfer will be discussed with the Fund's actuary and, once all parties are in agreement, payment will be made.

Transfers into the Fund and Extension of 12-Month Time Limit [R100]

The administering authority may accept a transfer value of pension rights into the Fund and may also extend the time limit of 12 months from the date the member first became an active member in their current employment.

The Council will accept a transfer value where a request is made. The Council will only agree to extend the time limit where the appropriate employer has agreed to extend the time limit.

Final Pay Reductions [TP]

The administering authority will decide whether to use an average of three years pay for final pay purposes where the member has died before making an election.

The pay figure which provides the highest overall level of benefits will be selected.

Administering Authority Policy Statement 2014

Permanent Reductions in Pay- Certificates of Protection [TP & TSch1 & L23(9)]

The administering authority will decide for a member who has a certificate of protection who has died before making an election which pay figure should be used for final pay purposes.

The pay figure which provides the highest overall level of benefits will be selected.

Eligible Child – Ignoring Breaks [RSch1 & TP]

The administering authority may treat a child as being in continuous educational or vocational training despite a break.

The Council will accept short breaks and also gap years as being breaks in education, and will restart a suspended child's pension at the end of such a break or gap.

Financial Dependence /Interdependence of Cohabiting Partner [RSch & TP& B25]

The administering authority will decide upon the evidence required to determine the financial dependence or financial interdependence of the cohabiting partner and the scheme member.

The Council will provide details of the evidence required taking account of any guidance provided.

Abatement of pre-1 April 2014 Pension [TP & A70]

The administering authority shall decide whether and how to abate the pre-1 April 2014 pension element following re-employment of a scheme pensioner by a local government employer.

In the event of a scheme pensioner obtaining further employment with a scheme employer, the pension will not be abated. The Fund resolved from 1 September 2006 not to abate pension on re-employment.

Extension of Time Period for Capitalisation of Added Years Contract [TP & TSch1 & L83(5)]

The administering authority may extend the time allowed to a member who has an added-years contract and who is made redundant to decide whether to pay a capital payment.

The Council will apply the prescribed three-month time limit, unless there are individual circumstances which need to be considered in deciding whether to grant an extension of the time limit.

Recovery of Unpaid Employee Contributions as Debt/From Benefits [A45]

The administering authority may recover any outstanding employee contributions as a debt or as a deduction from the benefits.

The Council will, where practical deduct any unpaid employee contributions from the benefits relating to the membership to which the unpaid contributions relate.

Consent for Early Payment and Waiving of Reduction [B30]

The administering authority may consent to the early payment of deferred benefits for a member aged between 55 and 60 where the former employer has ceased to be a scheme employer, it may also consent to waive the reduction on compassionate grounds.

Where a request is received, it will be considered individually and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justifiable.

Application for Early Payment of a Suspended Tier 3 Ill-Health Pension and Waiving Reduction [B30]

The administering authority may consent to the request for the early payment of pension for a member, who left with a tier-3 ill-health pension that is suspended and who now is aged between 55 and 60 where the former employer has ceased to be a scheme employer. The administering authority may also waive any reduction.

Where a request is received, it will be considered individually and on its own merit. However, where there is a cost, as this cost will have to be spread across all employers, the cost has to be justifiable.

Request for Early Payment of Deferred Benefits on Ill-Health Grounds [B31]

The administering authority may decide to agree to a request from a deferred member for early payment of benefits on ill-health grounds where the former employer has ceased to exist.

The Council will obtain an opinion from an IRMP as to whether as the member meets the criteria of permanent ill health and reduced likelihood of gainful employment.

Spouses' Pensions Arising Under the 1995 Regulations Payable for Life

The administering authority shall decide to pay spouse's pensions for life for pre-1 April 1998 retirees/pre-1 April 1998 deferreds who die on or after 1 April 1998, rather than ceasing the pension during any period of marriage or cohabitation.

The Council has deemed that any spouses' pension that comes into payment is payable for life. This does not apply to spouses' pensions that ceased prior to 1 April 1998.