



Assurance Framework Supporting the Annual Governance Statement

March 2015

Assurance Framework

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1. Background

- 1.1 The annual report and accounts contains the City Council's annual governance statement as required by the accounting standards that apply to local government. The application to the West Midlands Pension Fund is limited, as the statement covers all of the Council's activities. The Strategic Director and senior pension services staff do make declarations in support of the statement and these are based upon a detailed bespoke 'assurance framework' that has been developed for the Fund. It is designed to give assurance to the Committee and interested parties that the administration of the Fund is operating in a satisfactory manner. This report is to highlight, for the Committee, the assurance framework and matters that have been managed during the last 12 months.
- 1.2 This report was prepared and agreed by Geik Drever, Strategic Director of Pensions.

2. Assurance Framework

- 2.1 The assurance framework is to ensure the Fund meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and best practices, where appropriate, and has high customer service satisfaction. The framework in diagrammatic form is pictured on page 9.
- 2.2 There have been no adverse matters arising from the work behind the assurance framework. The following matters are highlighted as indications of the activities within the framework and the outcomes:

2.2.1 External Audit

The Fund is subject to audit by PWC. The 2014 audit produced no material issues for management or any matters to draw to members' attention.

2.2.2 Risk Management

An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to annual review and quarterly monitoring. It is available to internal and external audit.

The risks to the Fund's core objectives have been identified. The core objectives are:

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

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There are currently 41 risks which have been identified, with ten classified as the 'top risks' for the Fund. None has a critical rating. The highest-noted risks are the following:

Administration

- **The pension administration strategy (PAS) is not complied with by employers**
The risk is that employers are not aware of their responsibilities under the PAS. In order to mitigate this risk the Fund communicates with employers to ensure they understand the PAS and the requirements within. Each employer is asked to sign an undertaking of their understanding and acceptance.
- **Lack of employer covenant strength and/or suitable guarantors**
All new employers are required to have a suitable guarantee in place prior to being admitted into the scheme. Monitoring is carried out on existing employers, the covenant strength is assessed and each employer risk rated. Higher-risk employers are monitored closely.

Governance

- **The Fund breaches information governance and data protection law/regulations**
The Fund is due to be registered as a data controller from 1 April. Breaches could lead to reputational damage and possible enforcement action from regulators, such as penalty notices. The Fund provides staff training and all breaches are reported and any systemic issues are identified and corrected.
- **The Fund cannot continue to operate and deliver its priority services following a disaster or data loss scenario**
No experience of service failure; however, the Fund's business continuity plan is largely dependent on the IT infrastructure of Wolverhampton City Council. To mitigate any risk, the Fund is currently in discussion with the Council to ensure the Fund is adequately covered within the Council's own recovery plan.

Investments

- **The Fund invests in an inappropriate asset allocation**
The risk that trustees and officers do not receive appropriate advice or do not have suitable skills to make decisions is mitigated by the Fund providing training and formal qualifications for trustees and officers. Annual reviews are also undertaken by the Fund's investment advisor and investments are diversified by asset classes to spread risk.
- **Poor performance of investment managers**
Due diligence is carried out on all managers prior to agreeing to invest. Any investment is approved by the Strategic Director of Pensions and Assistant Director – Investments. Manager performance is reviewed at monthly Investment Management Team meetings and annually by the Fund's Investment Advisor.


2.2.3 Compliance Monitoring - Regular reports submitted to Pensions Committee quarterly. No issues arose in last 12 months.

2.2.4 Statutory Policies - operating practices etc. Significant statutory policies and Fund policy statements have been reviewed and submitted to the April 2014 Pensions Committee.

2.2.5 Customer Service Excellence and Investors in People - The Fund remains committed to CSE through the enhancement of processes and procedures, and to investing in its staff.

2.2.6 Staff Management - A detailed staff appraisal framework has been developed and rolled out across the pension service. It assists in ensuring that the Fund maintains competent, skilled and experienced staff to deliver the objectives agreed in the Fund's *Business Plan 2015-2020* and meets future legislative changes.

2.2.7 Key Priorities and Activities - Key Fund priorities and activities identified in *Medium-Term Business Plan 2011-2015* have been achieved with work ongoing in respect of emerging priorities and activities forming the *Service Plan 2015-2020* (summary report attached).



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3. Annual Governance Statement

3.1 The assurance framework enabled the following statement to be given in support of the Council's overall annual governance statement:

With regard to the Fund's day-to-day management, this is carried out by teams of staff who are dedicated solely to the functions of pensions administration and pensions investment. Appropriate support and advice is provided by external investment managers and advisors. All teams report to a dedicated Strategic Director of Pensions.

The key elements of the Fund's internal control environment include:

- procedures for establishing and monitoring the achievement of the Fund's objectives;
- the facilitation of policy making and decision making;
- ensuring compliance with established policies, procedures, laws and regulations;
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Fund are exercised;
- the financial management of the Fund and the reporting of financial management; and
- the performance management of the Fund and the reporting of performance management.

4. Recommendations

4.1 Members are requested to note the background to the assurance framework and updated operational practices.

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Priorities – Implementation Targets

Activity	Benchmark Measurement	Target	Frequency
Quality procedures and practices			
a) Maintain quality accreditations	Investors in People (IIP), Investors in Excellence (IIE), Customer Service Excellence (CSE) and shortlisting in industry awards	Reaccreditation/shortlisting for awards	Annual, as available
b) Respond to best practice	Through updates to SMT	Improvements to be identified and reported on regularly	Quarterly
c) Respond to legislative changes	Legislative requirement	Compliance with legislation	Quarterly
d) Data quality	Performance against key performance indicators	Data is accurate and updated on a timely basis	Continuous, with quarterly reports

Activity	Benchmark Measurement	Target	Frequency
Drive progress through performance improvement			
a) Improve data quality standards to meet regulatory requirements	Review of performance against specific targets set by the regulator in respect of completeness and accuracy of data	Achieve targets set by the regulator	Ongoing/annual
	Outcome of reviews by the regulator and internal audit	Positive reports by review bodies	Ongoing/annual
b) Develop cross-cutting key performance indicators focused on service priorities	Performance against new key performance indicators (KPIs)	The aim is for the pension administration service to operate at 85% (or better) in accordance with the standards set	Annual and quarterly reporting

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Priorities – Implementation Targets

Activity	Benchmark Measurement	Target	Frequency
Develop and implement customer engagement initiatives			
a) Develop, review and consult upon and implement engagement strategies	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and quarterly reporting
b) Hold AGM and mid-year reviews annually for employers	Events held in summer and winter each year and are favourably received	Two events per year with 90% of respondents to feedback stating event was either good or excellent	Report to SMT following event
c) Develop communications with stakeholders' needs in mind	Availability of Fund websites, SharePoint and other documentation, and regular review of feedback through SurveyMonkey	To meet communication strategy requirements	Annual and quarterly reporting
d) Implement and review customer journey mapping (CJM) programme	CJM programme to be implemented with project plan targeting customer segmentation	Processes reviewed by customers on a quarterly basis	Quarterly

Activity	Benchmark Measurement	Target	Frequency
Management of risk strategies			
a) Regular risk management reviews	Annual risk review	To have an action plan for the most significant risks	Annual/quarterly monitoring
b) Review of major changes and new activities of business	Review/approval from Pensions Committee	All Fund risks are adequately managed	Ongoing/quarterly reviews of risk register
c) Develop and maintain risk management approach in order to give annual assurance statement	Review/approval from Pensions Committee	All Fund risks are adequately managed	Annual review
d) Develop and implement business continuity planning	Review/approval from SMT	Full test of business continuity plan to be completed by Q2 2015	Annual review

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Priorities – Implementation Targets

Activity	Benchmark Measurement	Target	Frequency
Review and implement investment strategy			
a) Review of investment strategy	Annual asset allocation review/ Statement of Investment Principles	Ensure investment strategy has regard to Fund's funding position and liabilities	Annual, with quarterly monitoring
b) Implementation of investment strategy	Review/approval by Investment Advisory Sub-Committee	Ensure changes carried out within agreed timescales and cost-effectively	Quarterly
c) Monitoring of performance and portfolio changes	Reporting to Investment Advisory Sub-Committee	Ensure performance at least matches agreed benchmarks	Quarterly
d) Voting and implementation of ESG policies	Reporting to Pensions Committee and Investment Advisory Sub-Committee/SRI Statement	Comprehensive voting programme and membership of LAPFF and other ESG initiatives	Quarterly

Activity	Benchmark Measurement	Target	Frequency
Triennial actuarial valuation			
a) Engage with employing bodies and discuss issues	Consultation programme extended to all participating employers	Meet agreed timetable	Next actuarial valuation 2016
b) Collect data for valuation	Formal valuation project plan	Meet agreed timetable	Annually
c) Communicate individual results	Actuarial contributions certified as per regulatory requirements	Meet agreed timetable	Next actuarial valuation 2016
d) FSS to be updated accordingly to include the Fund's strategy for deficit repair	Regulatory requirements	Comprehensive and up-to-date	Next actuarial valuation 2016
e) Ongoing review of investment strategy to maintain SIP	Regulatory requirements	Comprehensive and up-to-date	Annual
f) Regular employer covenant review	All employer covenants reviewed and necessary actions taken	Risk-based employer covenants	Annual

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Priorities – Implementation Targets

Activity	Benchmark Measurement	Target	Frequency
Trustee and Pensions Board training			
a) Maintain and expand the opportunities to build trustee and Pensions Board knowledge and understanding	CIPFA Skills and Knowledge Framework and the legislative requirements concerning the knowledge of Pensions Board members. Wide range of knowledge-building opportunities provided. Intensive off-site training when required	Minimum of three days' provision to Committee members	Ongoing, with annual report
b) Monitoring of approved training policy	Wide range of knowledge-building opportunities provided	100% target achieved	Ongoing
c) Identification of training needs and development of training plan	Wide range of knowledge-building opportunities provided	Training needs identified and addressed	Ongoing
d) To ensure trustees and Pensions Board meet TPR competency requirements	TPR framework and standards and training needs analysis	Compliance with CIPFA Knowledge and Skills requirements	Ongoing

Activity	Benchmark Measurement	Target	Frequency
Developing people			
a) Ensure a skilled, flexible and professional workforce	Staff induction, training plan and appraisal	25 hours' training per annum and appraisals for all staff	Ongoing
b) Measure and improve competency levels through performance appraisals	Annual appraisal	All staff to have up-to-date appraisals	Annual appraisal, with six-month review
c) Learning and development guide developed and reviewed with due attention to training needs analysis and performance appraisals	Training needs addressed with development plan created	Training needs analysis to be reviewed annually	Annual
d) Cultivate a working environment where knowledge is shared	Knowledge library of all courses available on SharePoint	100% of internal courses made available via SharePoint	Ongoing
e) Maintain accreditations including Investors in People (IIP) and Customer Service Excellence (CSE)	Investors in People, Customer Service Excellence	Reaccreditation	Annual

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Assurance: 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.

Objectives: The bodies receiving assurance can be satisfied it is soundly based, is comprehensively updated and meets high professional standards.

