



Addendum 2014

West Midlands Integrated Transport Authority (ITA) Pension Fund

Foreword

This addendum to the annual report for 2013-2014 has been produced in response to a letter dated 18 August 2014 from the Department for Communities and Local Government. This letter advised that under Regulation 34(3) of the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008 and Regulation 57(3) of the LGPS Regulations 2013, an administering authority is to give regard to guidance given by the Secretary of State when preparing and publishing their pension fund annual report under these regulations.

Using the Secretary of State's powers of delegation under paragraph 13 of Schedule 3 to the Public Service Pensions Act 2013, guidance for the preparation of a pension fund annual report has been published by CIPFA for the purposes of Regulation 34(3) of the 2008 Regulations and Regulation 57(3) of the 2013 Regulations.

In view of the fact that the annual report for 2013-2014 had already been prepared alongside the statement of accounts and reviewed by the external auditors, a review of the annual report has been undertaken to ensure compliance with the guidance provided by CIPFA. As a result of this review, additional disclosures are required to comply with the new requirements. Therefore, this addendum has been prepared to ensure compliance with the updated guidance. However, there are certain requirements for which the information is not available. Where this is the case, efforts are being made to ensure that the required information is now being collated for publication in future annual reports.

The addendum should be read in conjunction with the Fund's annual report for 2013/14 which is available at <http://www.wmpfonline.com/CHttpHandler.ashx?id=5603&p=0>

Management and Financial Performance

OFFICERS OF THE ADMINISTERING FUND

- **Geik Drever**
Director of Pensions
- **Mark Chaloner**
(from August 2013)
Assistant Director – Investments
- **Claire Parlor**
(until March 2014)
Head of Governance
- **Rachel Howe**
(from July 2014)
Head of Governance
- **Nadine Perrins**
(retired March 2014)
Head of Pensions Administration
- **Simon Taylor**
(from April 2014)
Head of Pensions Administration
- **Riz Dhanani**
(from December 2013)
Fund Accountant

INVESTMENT MANAGERS

- Baillie Gifford
- Baring Asset Management Ltd
- Legal & General Investment Management Ltd

AVC PROVIDER

- Prudential and Equitable Life

ACTUARY

- Mercer Human Resource Consulting Ltd

MAIN EXTERNAL ADVISERS AND SERVICE PROVIDERS

- Wolverhampton City Council
in-house solicitors
- KBW
- Stewarts Law LLP
- Squire Sanders

BANKER

- NatWest

WMITA ACCOUNTANTS

- Emma Newsham and Kirsty Shaw

AUDITOR

- Grant Thornton LLP

SCHEME ADMINISTRATOR

- West Midlands Integrated Transport Authority

INDEPENDENT ADVISORS

- Hyman Robertson

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.

The Director of Pensions at West Midlands Pension Fund submits an annual assurance report 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 and, in particular, that risk management arrangements are robust.

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, with 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 regularly 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.

The risks associated with the bulk annuity insurance buy-in are referenced in Note 16 of the accounts. Other risks associated with the Fund are referred to in note 21.

SAS70/AAF0106 reports including an affirmation questionnaire request are sent to managers on an annual basis. Managers not required to produce SAS70/AAF0106 are requested to complete the questionnaire. Document exceptions are recorded and reviewed by the compliance team and any concerns are addressed in a compliance meeting with the manager.

FINANCIAL PERFORMANCE

The Fund's Financial Services report is detailed on page 28 of the annual report.

Commentary on Movements on Assets and Liabilities

The table below details the assets and liabilities of the Fund as at 31 March 2013 and 31 March 2010:

	31 March 2013 £m	31 March 2010 £m
Total assets	449	382
Liabilities:		
Active members	126	124
Deferred pensioners	65	49
Pensioners	372	280
Total liabilities	563	453
Past service surplus / (shortfall)	28	n/a
Funding level	84%	84%

The key factors which have affected the movement of assets and liabilities are:

- improvements in the position due to positive investment performance, the impact of contributions paid by employers and interest rate protection from buy-in contract;
- shortfall increase due to changes in underlying financial conditions, principally reductions in real gilt yields; and
- significant changes in the financial market position. In particular, there has been an increase in gilt yields which underpin the assessment of past service liability values and therefore the long-term funding target.

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

Timeliness of Contributions

The receipt of contributions is monitored on an ongoing basis and reported to the Strategic Management Team on a monthly basis in the form of a key performance indicator (KPI). The table below details the KPI during 2013/14 reflecting the percentage of contributions received by the 19th of the following month in which contributions have been deducted from the employers' payroll:

Month	KPI % for individual months' contributions
April 2013	100
May	100
June	100
July	100
August	100
September	100
October	100
November	100
December	100
January 2014	100
February	100
March	100

Comparison of Budget v Outturn in Respect of Administrative Costs

The Fund incurs the following costs for pension administration as part of SLA agreements with the ITA Pension Fund:

Fund Administration, Finance and Accountancy	£162,000
Investment Management	£30,000

The charging mechanisms are being reviewed in 2014 and the new charging structure will be reported in next year's annual report if changes are made. Material changes to the charging structure are not expected.

ADMIN MANAGEMENT PERFORMANCE

KPIs are not Fund-specific and are produced for WMPF and WMITA in a combined report.

INVESTMENT POLICY AND PERFORMANCE REPORT

The ITA 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. LAPFF also advise on other areas including best practice and members receive presentations from managers specialising in ESG investment.

SCHEME ADMINISTRATION REPORT

Dispute Resolution

There were no new dispute cases in 2013/2014.

Any dispute would be independently reviewed under the Scheme's internal disputes resolution procedure (IDRP). A number of other regulatory bodies exist that may also be of assistance.

The LGPS regulations require the Fund to have an arrangement in place for the resolution of disagreements. It is a two stage process:

Stage 1 – application for adjudication of disagreements

Stage 2 – referral of adjudications to administering authority

Each employer and administering authority must appoint a person "the adjudicator" to consider an application from any person who is dissatisfied with a decision made under the pensions regulations. This first stage is a formal review by the authority or body that made the decision and it provides an opportunity to reconsider and where appropriate to alter the decision where facts or evidence were not taken into account or where there has been a mistake. An application must be made within six months of the date of the notification of the decision and the adjudicator must give a decision within two months of receiving the application

The administering authority is responsible for reconsidering a decision where a person is unhappy with the outcome from the adjudicator under stage one. At this second stage, the administering authority need to be satisfied that the stage one decision was reasonable and consistent with other decisions made. The administering authority must reconsider the decision and provide the applicant with a written outcome within two months.

The notification must also include a statement which states that the Pensions Ombudsman may investigate and determine any complaint or dispute.

GOVERNANCE COMPLIANCE STATEMENT

ITA Committee Membership

Summary of Attendance at Committee Meetings 2013/14

1 April 2013 to 31 March 2014

Trustee Members	13 May 2013	2 September 2013	14 October 2013	10 March 2014
Cllr Elias Mattu*	N			
Cllr Mariam Khan*	N			
Cllr Bryan Cotterill	Y	Y	Y	Y
Cllr Allah Ditta	Y	Y	N	Y
Cllr Robert Alden	Y	Y	Y	N
Cllr Patrick Harley	Y	Y	Y	N
Cllr Catherine Miks**		N	N	Y
Cllr Des Hughes**		N	Y	Y
Cllr Paulette Hamilton**		Y	Y	N

*Retired 23 June 2013

**Appointed 24 June 2013

All of the above have full voting rights.

Committee members are advised to target three days of training each year as part of their commitment to good scheme governance, which may comprise structured training and participating in conference or alternate training opportunities. Training opportunities may include the following events:

- Presentations to Committee
- Internal training events
- Seminars and conferences offered by industry wide bodies, such as the LAPFF annual conference.
- Local, free or low cost seminars and training events offered by the Fund's investment managers and advisors.
- Online training and reading

Summary of Recorded Trustee Training by Member

1 April 2013 to 31 March 2014

Trustee Members	Total training days
Councillor Bryan Cotterill	1.0
Councillor Allah Ditta	1.0
Councillor Robert Alden	1.0
Councillor Patrick Harley	1.0
Councillor Catherine Miks	1.0
Councillor Des Hughes	1.0
Councillor Hamilton	1.0

Funding Strategy Statement (applies to 13/14)

<http://www.wmpfonline.com/CHttpHandler.ashx?id=4657&p=0>

Funding Strategy Statement (applies to 12/13)

<http://www.wmpfonline.com/CHttpHandler.ashx?id=4538&p=0>

Statement Of Investment Principles (Applies To 13/14)

<http://www.wmpfonline.com/CHttpHandler.ashx?id=4542&p=0>

References to "Pensions Committee", "Pension Fund Committee" should state "Pension Fund and Bus Shelter Appeals Sub-Committee".